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**✓ AMENDMENTS TO
UNITED STATES HOUSING ACT
OF 1937**

**HEARINGS
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES**

SEVENTY-FIFTH CONGRESS

THIRD SESSION

ON

H. R. 10663

(Superseding H. R. 10417)

**A BILL TO AMEND THE UNITED STATES HOUSING
ACT OF 1937**

APRIL 28, MAY 2, 3, 4, 5, 1938

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CONTENTS

Statement of—	Page
Hon. Nathan Straus, Administrator, United States Housing Authority—	2,
	29, 61, 89, 109
Mr. William Green and Harry C. Bates on behalf of the American Federation of Labor—	148
Mr. Lee Pressman, on behalf of the Committee for Industrial Organization—	149

EXHIBITS

Exhibit No. I. Table showing loans, dwelling units, and rentals per room per month in projects covered by nine approved contracts—	3
II. Effect of amendment to United States Housing Act of 1937 allowing Federal loans up to 100 percent until July 1, 1939—	10
III. Complete list of total commitments to date (including earmarkings outstanding, today's earmarkings, and loan contracts signed) for 77 cities in 23 States and also the Territory of Hawaii—	16
IV. Tax exemption can and should be counted as a local contribution in the amount which would normally be levied as a tax—	30
V. Chart of earmarkings and loan contracts—	43
VI. Map showing status of housing activities under United States Housing Authority Program, including existing legislation, housing authorities, earmarkings and loan contracts—	43
VII. Loan contract and annual contributions contract between city of Louisville Municipal Housing Commission and the United States Housing Authority—	51
VIII. Financial analysis of annual and total costs of \$1,000,000,000 low-rent housing and slum-clearance program (800,000 rooms at \$1,000 for construction and \$250 for land)—	61
IX. Letter dated May 4, 1938, to Congressman Clyde Williams on land costs and tax exemption—	78
X. General explanation of proposed amendments to United States Housing Act of 1937—	111
XI. List of local housing authorities as of May 3, 1938—	114
XII. Municipalities are unable to furnish a 10 percent capital subsidy—	116
XIII. Chart showing comparison of financial provisions under American and English housing systems—	137

AMENDMENTS TO UNITED STATES HOUSING ACT OF 1937

THURSDAY, APRIL 28, 1938

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:35 a. m. to consider H. R. 10417, Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly; Mr. Williams; Mr. Spence, Mr. Farley, Mr. Meeks, Mr. Kopplemann, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Evans, Mr. Transue, Mr. McGranery, Mr. Fish, Mr. Luce, Mr. White, Mr. Crawford, and Mr. Gamble.

Mr. GOLDSBOROUGH. The committee will come to order.

Gentlemen, we have before us this morning H. R. 10417, a bill to amend the United States Housing Act of 1937, and we have here Mr. Straus, the Administrator of the Federal Housing Authority, Mr. Keyserling, General Counsel, and Mr. Krooth, Assistant General Counsel.

(The bill under consideration is as follows:)

[H. R. 10417, 75th Cong., 3d sess.]

A BILL To amend the United States Housing Act of 1937

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the United States Housing Act of 1937 be amended as follows:

SEC. 2. Section 9 is amended to read as follows:

"SEC. 9. The Authority may make loans to public-housing agencies to assist the development, acquisition, or administration of low-rent-housing or slum-clearance projects by such agencies. Where capital grants are made pursuant to section 11 the total amount of such loans outstanding on any one project and in which the Authority participates shall not exceed the development or acquisition cost of such project less all such capital grants, but in no event shall said loans exceed 90 per centum of such cost. In the case of annual contributions in assistance of low rentals as provided in section 10 the total of such loans outstanding on any one project shall not exceed 90 per centum of the development or acquisition cost of such project: *Provided*, That where the original contract of loan is entered into before July 1, 1939, and where the Authority obtains satisfactory assurances that construction work can be promptly commenced on the project covered by the loan contract, the total of such loans on any such project may equal the total development cost of the project. Such loans shall bear interest at such rate not less than the going Federal rate at the time the loan is made, plus one-half of one per centum, shall be secured in such manner, and shall be repaid within such period not exceeding sixty years, as may be deemed advisable by the Authority."

SEC. 3. Section 10 is amended by amending subsection (e) and adding a new subsection (f) as follows:

"(e) The Authority is authorized, on and after the date of the enactment of this Act, to enter into contracts which provide for annual contributions aggregating not more than \$50,000,000 per annum. Without further authorization from Congress, no new contracts for annual contributions beyond those herein

authorized shall be entered into by the Authority. The faith of the United States is solemnly pledged to the payment of all annual contributions contracted for pursuant to this section, and there is hereby authorized to be appropriated in each fiscal year, out of any money in the Treasury not otherwise appropriated, the amounts necessary to provide for such payments.

"(f) Payments under annual contributions contracts shall be pledged as security for any loan obtained by a public housing agency to assist the development of the housing project to which the annual contributions relate: *Provided*, That annual contributions shall be used first to apply toward the payment of interest or principal as same mature on any loan due to the Authority from the public housing agency. The term 'any loan due to the Authority' as used in this section shall apply to any loan made by the Authority (including any bonds or other evidences of such loan which are resold by the Authority) to assist the development of the project to which the annual contributions relate."

SEC. 4. Section 20 (a) is amended to read as follows:

"SEC. 20. (a) The Authority is authorized to issue obligations, in the form of notes, bonds, or otherwise, which it may sell to obtain funds for the purposes of this Act. The Authority may issue such obligations in an amount not to exceed \$1,000,000,000. Such obligations shall be in such forms and denominations, mature within such periods not exceeding sixty years from date of issue, bear such rates of interest not exceeding 4 per centum per annum, be subject to such terms and conditions, and be issued in such manner and sold at such prices as may be prescribed by the Authority, with the approval of the Secretary of the Treasury."

Mr. Straus, will you be heard first?

Mr. STRAUS. Thank you, sir.

Mr. GOLDSBOROUGH. Just proceed in your own way, and take your own time, please.

STATEMENT OF HON. NATHAN STRAUS, ADMINISTRATOR, UNITED STATES HOUSING AUTHORITY

Mr. STRAUS. Thank you, sir.

Let me say in the first place that I find myself in a somewhat novel position. I never have appeared in this role before, and I want your guidance in helping me to present the material in the way it seems best to you.

I have not prepared any formal speech. I thought that I would outline a few matters of experience for about 5 or 6 minutes, explaining briefly the amendments that we are seeking, and then let you gentlemen ask me questions, if that procedure is agreeable. Is that all right?

Mr. GOLDSBOROUGH. It is entirely agreeable.

Mr. STRAUS. When the law was enacted, I had some misgivings personally as to its feasibility and as to its workability, and I so stated frankly to the President at the time I was appointed.

I want to say as a matter of justice, and in order to get the record straight, that I was wrong, and that you gentlemen who amended the bill and passed it the way you did were right, because it has proved thoroughly feasible and thoroughly workable. There are provisions of the law which make it perhaps a little slower in operation than we would have wished, but there is nothing which has proved impracticable or unworkable.

May I be specific on that point? You inserted a provision, as I recall it, limiting the costs per room and cost per dwelling unit to a certain amount in smaller cities, and to a certain amount in the larger cities. In the light of previous experience, it seemed to me and to many of us that it was difficult if not impossible to achieve those costs, but it has not proved impossible, and we have achieved

them in each of the projects for which we have made contracts. I see no reason why we cannot continue to do so.

In the second place, the provision that there must be a demolition of an equivalent number of slum units to the number of new units to be built seemed to be very difficult to achieve, because we did not see how we were going to compel localities to agree to that demolition. Again that has not imposed as serious an obstacle as I thought it would, and we have succeeded in every case, and in every case where we have so succeeded, we have made an agreement with the locality for the demolition of a number of slum units equivalent to the number of new units to be erected.

The third matter as to which all of us were somewhat skeptical was whether we could under the act achieve the rentals which were low enough really to rehouse slum dwellers. One of the criticisms of these programs has always been that you do not get down into the rental pocketbooks of the people who you are trying to rehouse.

I have a table here (exhibit I) of the rentals which I want to call to the attention of you gentlemen, because I think it is important.

EXHIBIT I

Loans and earmarkings of the United States Housing Authority, Department of the Interior

[Amount of loans, \$53,493,000; amount of earmarkings, \$257,505,000]

City	Loan	Units	Rentals per room per month
1. Austin, Tex.....	\$643,000	186	\$2.75
2. Charleston, S. C.....	1,017,000	216	4.00
3. New Orleans, La.....	8,411,000	1,397	3.90
4. Syracuse, N. Y.....	3,930,000	678	4.25
5. Youngstown, Ohio.....	2,835,000	600	4.25
6. Augusta, Ga.....	1,369,000	335	3.50
7. Jacksonville, Fla.....	1,027,000	224	3.80
8. Louisville, Ky.....	4,261,000	814	4.00
9. New York, N. Y.....	30,000,000	5,194	5.15

There are not so many projects.

In New York City, which is at the top, the rentals are going to be from \$5.12 to \$5.18 per room per month; Louisville, Ky., \$4 per room per month; Jacksonville, Fla., \$3.82 per room per month; Augusta, Ga., \$3.33 per room per month, and so on down. I do not want to take your time reading them all, but they go down to a low, which I am rather proud of, at Austin, Tex., of \$2.64 per room per month.

Mr. McKEOUGH. May I ask a question right there?

Mr. GOLDSBOROUGH. Certainly.

Mr. McKEOUGH. Are those the projects that you took over from the housing section of the P. W. A., or new construction?

Mr. STRAUS. No; I am not discussing them at any time. These are entirely new construction. All of my remarks are addressed to that, except insofar as you gentlemen may question me with respect to the P. W. A. projects. I am not addressing myself to the old P. W. A. projects.

Mr. KOPPLEMANN. Under this provision, have you gone into the State of Connecticut yet?

Mr. STRAUS. There is here a complete list of the States that we have gone into. Take Bridgeport; we have earmarked there 6½ million dollars.

Mr. KOPPLEMANN. But under the statute, we will have to obtain that 10 percent. Would it be impossible to do it unless the city or the community borrowed that 10 percent? Do you know anything about that?

Mr. STRAUS. I am very familiar with the Bridgeport situation, and I would be glad to give you any information I can about it, but might it not be more fruitful now if we did not go into a discussion of that kind? I do not want to cut you off, and I would be very glad to give you that information afterward. I wanted to point out that the act to date has been, in my belief as administrator, proved thoroughly workable and thoroughly practicable, and that the costs achieved, the rentals achieved, and that the degree of slum clearance which has been agreed upon are entirely in conformity with the principles of the act and with what is necessary to rehouse the slum dwellers.

Now, as to our achievements to date, and I hope that you gentlemen will interrupt me at any time if there is any question that I am not making clear, our earmarkings to date total over \$310,000,000. What is an earmarking? Perhaps it may be well for me to explain that.

We observed in the early stages in this program that communities would come in and want to know whether we would reserve some funds for them. They said that they could not make a contract then, that they did not have any material to enable them to negotiate a contract; but they said that if we could earmark some funds for them, they would go back to their communities and get local authorities set up, and they had local authorities in most cases, but that they would get the local authorities properly equipped to make the necessary surveys and meet the other provisions of the act in regard to local participation. But that they could not do that until they knew that they could get the money.

Mr. GOLDSBOROUGH. Is it in the nature of a gentleman's agreement?

Mr. STRAUS. Exactly; that we will set aside these funds and hold them for them.

Mr. FARLEY. How long a time do they have to set up this local authority, or to meet the requirements?

Mr. STRAUS. Well, I may have done some threatening, but have not canceled a single earmarking.

Mr. WILLIAMS. How many contracts have you actually entered into?

Mr. STRAUS. We have entered into nine contracts, with nine public housing agencies.

Mr. WILLIAMS. What are your commitments on them?

Mr. STRAUS. The total project cost under these contracts will be about \$60,000,000, and our commitment is 90 percent of that, or \$53,493,000.

Mr. GOLDSBOROUGH. Mr. Straus, would you prefer to complete your statement before you are questioned, because——

Mr. STRAUS. Would it be all right?

Mr. GOLDSBOROUGH. Yes.

Mr. STRAUS. It will only take about 5 minutes. I want to do it the way you think it is best for you, but I have not much more to say.

I wanted to point out that we have earmarkings of over \$310,000,000, and wanted to tell you what these earmarkings are.

Now, the next thing that I wanted to point out is that the number of local housing authorities, which was just under 50 last November, is now 140, and new ones are coming in at the rate of a little over 1 a day, indicating the extent of local interest. The number, in other words, has trebled since last November.

The next question that I am usually asked is if we have paid out any money, and I am happy to say that we have within the last week or 10 days. We have paid out a total of \$440,000. It is a small amount, but it is the beginning of money commencing to flow.

The sums paid out are \$53,000 to Youngstown; \$114,000 to Syracuse, N. Y.; \$279,000 to New Orleans, La.—

Mr. SPENCE. Has construction on those projects been started?

Mr. STRAUS. No, sir; but I hope it will in a week from now. Youngstown and New Orleans look very much alive.

The natural question in my mind, if I were sitting in your place, would be that this man comes along and tells us that everything is going fine; what is the matter? What does he want?

I want to make it clear at the outset that I believe that if you did not give us the amendments we ask, this program would work; but with the President and Congress interested in expediting it and putting men to work, we cast about for and discussed with some leaders of your House and leaders of the Senate methods of modifying the act to a minimum degree in order to expedite the program, to speed it up; that is, I asked myself, and I was asked by Members of your body: "What are your obstacles? What is holding the thing up?"

Now, what are those limitations? In the first place, we can earmark today only \$500,000,000. That is all there is in the bill. If we could spend that \$500,000,000, it would do a lot of good, but we cannot. Only \$300,000,000 can be spent under the present act before July 1, 1939.

In terms of that, in terms of the \$300,000,000 which may be spent before July 1, 1939, I do not believe that you can conceivably put more than \$125,000,000, maximum, into circulation during this calendar year. After all, the expenditure takes place over the period of a year or 18 months after the contract is entered into, and under the present situation we cannot conceivably spend more than \$125,000,000, according to my best judgment.

Putting it another way, only \$325,000,000 in loan contracts can be entered into before July 1, 1939, because of the limitations in the act on the amount of annual contributions or subsidies.

Now, at the peak of employment, in 1938, if we were to spend \$125,000,000, we would put about 125,000 men to work, both on the site and in factories. If we had an expanded program such as I am suggesting in the amendments, we could earmark this year \$900,000,000, keeping \$100,000,000 for States not now having housing legislation and for cities that have not yet housing authorities, and we could actually enter into \$800,000,000 worth of loan contracts, which would make possible something under 590,000 man-years of work, and we could put into circulation this year in employing people a total of \$300,000,000, over double what we could at present. I made a note here, which I think is a very good one, that at the peak of employment during next winter, we would have 300,000 to 350,000 men employed on projects and in the factories.

The obvious next question is—well, if you think you could do it—What amendments do you want?—and here are the amendments, a copy of which appear before me, and I assume that you have copies, that are proposed, amendments which will speed up the program and in no way constitute a departure from the present general picture. There is no radical alteration of the course on which the U. S. H. A. is at present embarked.

The first amendment removes the 10-percent requirement. At the present time there is a requirement in the act that we may loan not more than 90 percent of the cost of the projects, which means that 10 percent must be contributed or loaned locally.

I thought that that would be a more difficult provision of the act than it really is. We are able to work at present in loaning 90 percent and getting the 10 percent raised locally, but it would undoubtedly speed the thing up if we were able to loan 100 percent of the cost of the project.

I want to speak on that for just a minute. We have got an extraordinary amount of local participation in this program, a really impressive amount. You will recall that the act requires that for every \$5 of Federal subsidy annually the local community must put up \$1, 20 percent of the Federal contribution. Actually the amount of the local annual contribution that we have succeeded in getting on these first nine contracts constitutes 61.9 percent of the Federal contribution. That is an extraordinary degree of local interest which I did not believe could be achieved.

Mr. FORD. I do not understand that.

Mr. STRAUS. That for every dollar that the Federal Government is paying out in annual subsidy, the law requires the locality to pay 20 cents, instead of which the localities, on the average, are paying 61.9 cents for every dollar put up by the Federal Government.

Mr. McKEOUGH. Is that an actual money contribution, or is it in service?

Mr. STRAUS. Almost entirely in local tax exemptions, because that is the only thing that they have to give. They are mostly broke, as you know. I could read the cities off to you, but I do not want to take up too much time. It is interesting, however. The high mark is in Augusta, Ga., where the local annual contribution is 73 percent of the Federal, and it ranges all the way down to 28 and 30 percent.

Mr. GOLDSBOROUGH. I was probably out when you said it, but why is that? Why are the local contributions higher than they are supposed to be?

Mr. STRAUS. I suppose that it is a matter of explaining to the localities how they would reduce their own rents by reason of making this local contribution, and I repeat that there has been an amazing local interest in rehousing slum dwellers and getting people to work. I have been rather hardboiled about it, perhaps a little more than the act called for. We have difficulty in one city, where they only want to make the minimum contribution under the law, and I explained to them that we cannot get down to rentals that will rehouse their slum dwellers, unless they contribute more than 20 percent.

Mr. REILLY. Then the local contributions consist principally of exempt taxation?

Mr. STRAUS. Correct.

Mr. REILLY. If the Government went in there and built the buildings itself, without any minimum contribution, there would be no local taxation.

Mr. STRAUS. That is correct.

Mr. SPENCE. Have you ever had raised the question that under that act there was no consideration for the exemption, because otherwise they would be exempt, even if they did not specifically exempt them?

Mr. STRAUS. They are not specifically exempt unless they specifically exempt them. They are owned by the locality, not by the Government; they are not Government projects, and unless the State or the locality by voluntary act confers tax exemption on the project, it is not exempt. That is one of the good parts about that act.

Mr. SPENCE. That was my understanding of it, except that some question of that kind had been raised in my State, Kentucky.

Mr. STRAUS. I have the facts on that State, and I can directly answer that question. Kentucky is one of the States which has a complete and adequate housing act, enabling them to participate in every way.

Mr. FARLEY. How about Indiana?

Mr. STRAUS. Indiana, ditto.

Mr. McKEOUGH. Illinois?

Mr. STRAUS. Illinois has a defective act, and I have been in constant correspondence and telephone communication with them. There is no provision for tax exemption, and the tax in the city of Chicago—and I was working on that yesterday—would run as high as \$1.90 per room per month. You cannot rehouse slum dwellers on a basis of \$4 per room per month when there is a tax of \$1 per room per month involved.

Mr. McKEOUGH. What correction should be made in the act?

Mr. STRAUS. The correction needed is the standard act which has been enacted in most of the other States having housing legislation, which will permit the localities to grant tax exemption to these housing projects.

Mr. McKEOUGH. Have you had that up with the Governor?

Mr. STRAUS. Yes, sir.

Mr. SPENCE. There is no question ever raised about these projects being exempt under the general law?

Mr. STRAUS. No, sir. As I understand it—and my counsel is here to correct me, but I am 99 percent sure that I am right—the tax exemption which these projects may have, or do have, is in every case a specific act of the legislature, and I think that that is one of the good parts of the program, that we do not go in and——

Mr. SPENCE. There is no question but that otherwise they would be taxable.

Mr. STRAUS. Surely.

Mr. WILLIAMS. Do you run into any constitutional provisions in many of the States?

Mr. STRAUS. There are several States in which that question is coming up, principally, again, Illinois, which seems to be one of the tougher ones, and where I am told the attorney general believes a constitutional obstacle exists.

Mr. WILLIAMS. That they cannot be exempt—that is, under the constitution of Illinois—and I have the impression about Missouri,

although I am not sure, that they are exempt, and that the legislature by no act of theirs could tax them.

Mr. STRAUS. I have not the detailed facts on Missouri, and we have not been up against that. You are correct that Missouri is one of the States that has no enabling legislative tax.

I am familiar with the situation in Illinois, because I have worked hard on it.

Mr. MEEKS. Have you had a formal opinion from the attorney general in Illinois to that effect?

Mr. STRAUS. No, sir. I do not think that it is wise for me at any time to deal with the attorney general directly. I think that I should have contact with the Governors, and with the mayors, occasionally.

Mr. MEEKS. Has the Governor given in any correspondence the impression that he is of the opinion that there is that constitutional question?

Mr. STRAUS. I do not think he did. He merely says that he is exploring the subject.

Mr. MEEKS. You have indicated that your viewpoint is that you were somewhat disappointed in not having the situation cleared in Illinois.

Mr. STRAUS. That is correct.

Mr. MEEKS. Has he ever indicated the hope that it will be done at the special session of the legislature?

Mr. STRAUS. Yes.

Mr. WILLIAMS. These housing authorities are considered the agencies of the State, are they not?

Mr. STRAUS. Yes, sir.

Mr. WILLIAMS. State institutions.

Mr. STRAUS. I do not think that they are agencies of the State, although in some cases they may be considered agencies of the city.

Mr. WILLIAMS. A political subdivision of the State.

Mr. STRAUS. Possibly.

Mr. WILLIAMS. In some cases, are not the State housing authorities created?

Mr. STRAUS. We have such boards in many States, but they merely act in a supervisory capacity. Our dealings are always with the city, with the local housing authority.

Mr. REILLY. Have you estimated what will be the Government subsidy per room under the projects that you have already planned?

Mr. STRAUS. Yes, sir; we have that information.

Mr. REILLY. What does it amount to?

Mr. STRAUS. The Government subsidy is an annual subsidy. The average rental before the Government subsidy would be between \$9 and \$10. The average rental which the slum dweller can afford to pay is between \$4 and \$5. I am always talking about per room per month. So that the local subsidy in the form used, of tax-exemption, makes up that difference between \$4 and \$9, or \$5 and \$10, per room per month.

Mr. REILLY. Do you mean that the Government will have to pay \$5 and \$10 per room per month?

Mr. STRAUS. No, sir; the maximum that the Government contracted to pay under the figures that I named there would be a maximum of \$4 per room per month, shared by the Federal Government and the local government.

Mr. REILLY. The Government would pay how much, then?

Mr. STRAUS. The Federal Government? It is hard to answer you. I am not trying to duck your question, and I understand it, but it depends upon the amount of local contribution that we can get. If the annual local contribution is 20 percent of the total that we must get, the Federal subsidy will be larger. If it is 60 percent, which we have succeeded in getting, it would be smaller. But the difference between the social rent, what the slum dwellers can afford to pay, and the economic rent, which is what a private builder would have to rent them for, must be made up in some way, and the only way that it can be made up is by a subsidy, an annual subsidy, according to this act, and that subsidy is shared by the Federal and local governments.

You asked me how much it amounts to. It amounts to about \$4 per room per month.

Mr. REILLY. That the Government will have to pay?

Mr. STRAUS. The Government will have to share that with the locality.

Mr. REILLY. Let me make this statement. Under the program before we wrote this last bill, the theory was that the Government would loan all of the money to the locality, and the Government then would pay in subsidies sufficient to pay the interest; in other words, the Government would give the money, and then pay out in subsidies enough to redeem the mortgage.

What does your plan provide that is different from that?

Mr. STRAUS. My plan provides absolutely nothing that is different in any way. I am not suggesting any amendment that would in any way modify the original act in its substantive provisions, which you have just very well outlined. I am trying very hard to emphasize that. The amendments that I am asking for are an increase in the amount of money available, which will be \$300,000,000 after July 1 of this year, to a billion, and the removal of the 10 percent local participation provision, so that we can loan 100 percent instead of 90 percent.

Mr. REILLY. Under your amendments, your set-up would loan the full amount?

Mr. STRAUS. Yes, sir.

Mr. REILLY. And all you would get from the city would be exemption from taxes?

Mr. STRAUS. All that we would get from the city would be a local annual contribution. I do not like to use the word "exemption" because they do other things. They contribute services. Some of them will contribute parks and money, and something or other, and many make part of the necessary local contribution toward the total annual grant.

If you ask, isn't it usually or mostly tax exemption, the answer is yes. Is that plain?

Mr. REILLY. I do not think there is enough from the community. Take this Williamsburg proposition, of 1,600 apartments, and something like 4,000 rooms; the Government under that plan would have to pay \$4 per room per month?

Mr. STRAUS. That is substantially correct, sir, and if you can tell me any way in which to rehouse slum dwellers without the Government making an outright grant or subsidy, I wish I knew it. It has been true in every country in the world, and the only way I know of to

justify it is that it is a contribution made by the Government, both national and local, to the well-being of the entire community, comparable to health services, to roads, to schools, or to any other one of the other services which we consider part of the modern city. It is a contribution toward wiping out these festering slums, and incidentally putting people to work.

That is the only ground that you can excuse it on, because if anybody thinks that the Government housing program is not going to cost money, he is kidding himself and maybe kidding others.

Mr. REILLY. Should not the Government housing programs of New York and Chicago be largely a local problem?

Mr. STRAUS. I do not know how to answer you. They are, directly. If what you mean is this, that there should be large local participation, of course they are. If, on the other hand, you mean, "Don't you think the thing can be solved that way?" I would answer you equally unequivocally "no," that the local governments are in a condition so far as their own financial budgets are concerned. You just would not get any housing, any more than if you asked them to finance entirely their school program, or their road program.

There is one thing that I would like to get into the record, and that is the costs of local contributions. I think that these figures will be interesting, and I will try to make it very simple. (See exhibit II.)

EXHIBIT II

EFFECT OF AMENDMENT TO UNITED STATES HOUSING ACT OF 1937 ALLOWING FEDERAL LOANS UP TO 100 PERCENT UNTIL JULY 1, 1939

I. The proposed amendment would preserve the principle of local participation. Although the proposed amendment would make it possible for the United States Housing Authority (for the limited period until July 1, 1939, where necessary to speed construction) to lend up to 100 percent of a project's development cost instead of 90 percent, the extent of local participation under the present and contemplated arrangements of the United States Housing Authority would still be more than double the minimum now required by the act.

The following table is based upon the fact that, while the act now requires local annual contributions equal to only 20 percent of the Federal annual contributions, the actual average of the annual local contributions obtained on the projects covered by the nine contracts approved by the President to date is 61.9 percent of the Federal annual contributions. Assuming a project costing \$1,000,000, this table shows the actual local contributions which would be obtained under the proposed amendment permitting 100 percent Federal loans, compared with the minimum local contributions required under the present law.

(1) Minimum local contributions required under present law permitting only 90 percent Federal loan, with 10 percent local capital contribution and 20 percent local annual contribution:

Maximum Federal loan	\$900, 000
Local Capital Participation ¹	100, 000
Maximum Federal annual contribution	35, 000
<hr/>	
Annual value of 10 percent local capital grant (3 percent)	3, 635
20 percent required local annual contribution	7, 000
<hr/>	
Total annual value of local participation	10, 635

(2) Value of local contributions under proposed amendments permitting 100 percent Federal loan, assuming local annual contributions equal to 61.9 percent (representing actual average percentage obtained on United States Housing Authority contracts approved by the President) of Federal annual contributions:

Maximum Federal loan.....	\$1, 000, 000
Maximum Federal annual contribution.....	35, 000
61.9 percent local annual contributions.....	21, 6¢5

¶ 1 Assuming that it is furnished as a grant rather than through sale of 10 percent of bonds by local housing authority.

II. Tax exemption can and should be counted as a local annual contribution for the following reasons:

First, because the United States Housing Act expressly permits tax exemption to be counted as a local annual contribution (sec. 10 (a)).

Second, because, in the absence of State constitutional or statutory provisions, these projects would be subject to local taxation, since they are locally owned and are not Federally owned as in the case of a Federal post office where the property would be automatically exempt from local taxes. A housing project, though financed by a Federal loan, is owned by a local housing authority, which is a separate public corporation created under State law. It is optional with the people in each State either to grant or withhold tax exemption, and, to date, housing projects in 4 of the 33 States are not entitled to tax exemption.

Third, because in most of the State housing laws, the local housing authorities and the cities are authorized to fix, or enter into contracts for, payments by the local authority to the city for services in lieu of taxes. While tax exemption is granted, these State laws permit the local authority and the city to require payments in substitution for taxes on the projects. In computing the annual value of tax exemption, the United States Housing Authority only gives credit for the difference between the normal taxes which would be charged and any payments to be made for services. In most cases no payments are made in lieu of taxes for such services, and in all cases the payments are limited to a very small sum which does not exceed 5 percent of the shelter rent on the project. The localities contract over the entire life of the project not to charge for regular municipal services which they are to furnish and which cost the localities large sums.

Fourth, because tax exemption is just as effective a method of getting low rentals as cash contributions to meet part of operating expenses or debt service. In the absence of tax exemption, the taxes on a project would be a charge which would have to be met from rentals or from cash subsidies, just like operating expenses. If tax exemption were not granted, the Federal subsidies would have to be higher or the rents would be much higher. Cities throughout the country have found that tax exemption was the only feasible way to provide local annual contributions in the substantial amounts which (together with the Federal contributions) are necessary to achieve low rentals that slum dwellers can afford. Cities have been unable to provide cash contributions because of their financial condition and constitutional and statutory debt limitations. Tax exemption as a contribution is both legally feasible and practically effective in getting low rents.

Fifth, because taxes are now being collected from the sites to be used for the projects and because taxes are being collected (as part of their rent) from the families who are to inhabit the project. As a result, tax exemption deprives the city of a present source of revenue, while the city continues to furnish all municipal services practically free of charge to tenants who had been living in fully taxed properties.

General Summary. The United States Housing Authority, in aiding a housing project, is in the dual position of (a) a banker with respect to its original development loans and (b) a Government agency interested in the social objective of low rentals with respect to its annual contributions. Insofar as United States Housing Authority loans are made to projects, these projects are in exactly the same position as projects financed by the Reconstruction Finance Corporation or insured by the Federal Housing Administration. The Federal Housing Administration projects and the Reconstruction Finance Corporation railroad and other projects are subject to local taxes notwithstanding Federal loans. Housing projects aided by United States Housing Authority loans would also be subject to such taxes unless tax exemption were conferred by the State as a local contribution or subsidy.

If projects were aided only by a loan from the United States Housing Authority with no Federal or local annual contributions or subsidies, the rentals would be clearly beyond the reach of the low-income families living under slum conditions. The purpose of Federal and local annual contributions or subsidies is to make up the difference between the economic rent which would be charged in the project to meet operating expenses and debt service (including taxes) and the social

rent which these low-income families can afford. Just as the Federal Government makes its annual contribution or subsidy in the form of cash to meet part of the annual charges on the project (and thus reduces rentals) so the local Government makes its annual contribution or subsidy in the form of remission of normal annual tax charges (and thus reduces rentals).

Let us take a million-dollar project. Under the present law, the maximum Federal capital loan is \$900,000. The maximum Federal annual contribution provided in the bill would be $3\frac{1}{2}$ percent of that, or \$35,000 a year under the present law, and I am trying to distinguish between the present law and the amendment. Under the present law the annual value of the 10 percent local contribution which is now required, if it were a grant, would have an annual value of \$3,635. The 20 percent required local annual contribution, that is, the 20 percent which the locality is supposed to put up for every 100 percent put up by the Federal Government, the minimum required in the law that is now usually covered by tax exemption amounts to a total of \$7,000 a year. So that under the present law, if the localities pay the minimum required, capital and annual grant, they would cut up a total of \$10,635 on this project every year throughout its life.

Now, under the proposed amendment, let us take a million-dollar project. The maximum Federal loan would be obviously the whole million dollars. The maximum Federal annual contribution would still continue to be \$35,000. No change. But if we succeed in continuing to get the degree of local participation which we have received in the past, and I do not know of any reason why we cannot do so, that is, 61.9 percent of the Federal annual instead of 20 percent, the local annual contribution will be more than \$21,000 per year, a little over double the sum of the 20 percent minimum annual contribution plus the capitalized value of the 10 percent of the local loan.

Do you get me? We are today getting, in other words, over double the minimum that is set forth in the statute, and I see no reason why we cannot continue to do so, so that although you remove the provision that we now lend only 90 percent, and allow us to lend 100 percent, we would still get an effective value in cases of the standard that you set forth in the act.

Mr. WILLIAMS. On what basis do you calculate the tax exemption?

Mr. STRAUS. On the actual value of the property as assessed, as though it were assessed in full.

Mr. WILLIAMS. After it is completed?

Mr. STRAUS. Yes, sir; comparable to the amount we pay, for instance—may I take as an example Illinois again? There is no harm in referring to it again, as it is very fresh in my mind.

Mr. MEEKS. As soon as you get through with this statement, I would like to ask you a question about Illinois.

Mr. STRAUS. I hate to go back to Illinois, for I do not want to pick on individual States. Would it be better to take New York?

Mr. McKEOUGH. Take Illinois. We can stand it.

Mr. WILLIAMS. Is the tax remission based on the present value of the property, or on the property after the Government has spent the money?

Mr. STRAUS. If the amount of the contribution were based on the present value of the land, it would be much easier to handle, because then we would not have these high assessments, but the cities assess the properties when completed at approximately 80 percent of the cost, and in Illinois, or New York, or Pennsylvania, if there is no tax

exemption on the amount of the taxes levied against the property, the tax per-room-per-month basis would vary from \$1.70 to \$2.

Mr. SPENCE. What other contributions do the cities make, besides this tax exemption?

Mr. STRAUS. We occasionally get a park, and sometimes a contribution of water service, but, by and large, it is usually tax exemption.

Mr. WILLIAMS. What would be that contribution if based on the present value?

Mr. STRAUS. Doesn't that depend on the present value of the property? If you are building on expensive land, the valuation of course would be high, but if on the other hand you are building on cheap land, it would be very small.

Mr. WILLIAMS. But if the improvement put on that land is put there at the expense of the Government, the city is not losing anything, is it?

Mr. STRAUS. I do not want to answer that question, but I wholly agree with you.

Mr. SPENCE. I am very much interested in the credit for tax exemption. You have a project in my district, in Covington, in the State of Kentucky, where the only private property that can be exempt from taxation is that given to a manufacturing plant by the municipality as a condition to their locating there for a period of 5 years.

I want to know what constitutional right there exists in the Legislature of Kentucky to exempt you from taxation.

Mr. STRAUS. I am afraid you have me above my depth on a legal question. I have a record here that we made a loan in Louisville Ky., and I know that we would not have made the loan unless both the local legal lights and my own counsel were convinced that the provision for the tax exemption were valid. However, I am not a lawyer, and I base that on what somebody else has told me.

Mr. SPENCE. I do not want you to go any further, if you will just grant it. [Laughter.]

Did Louisville contribute here portion in tax exemption?

Mr. STRAUS. The Louisville contribution is actually 53 percent, 53.7 percent of our contribution. The federal annual contribution is \$165,000, and the local contribution is \$89,000.

Mr. SPENCE. Is that in tax exemption?

Mr. STRAUS. Yes, sir, mainly.

Let me get this thing straight. A portion of it is in the donation of streets and parks, but most of it is in tax exemption.

Mr. MEEKS. You spoke about some difficulties in Illinois on the question of contribution. I did not quite get what you said. The difficulties were something in the constitution, I believe. Did I understand it correctly, that you had certain difficulties in Illinois about getting contributions, or exemptions?

Mr. STRAUS. Let me see if I can answer you, sir. As to whether that is correct, yes. The question was asked by one member of the committee as to whether there were constitutional obstacles to granting this tax exemption in certain States. I said, yes; and one of the gentlemen asked me if we are not having constitutional difficulties in Illinois; and I said, yes; and then I was asked further questions as to the nature of the constitutional difficulties, and I pleaded off on the ground that I am not a lawyer and I did not fully know.

Mr. MEEKS. In other words, you do not understand what the difficulties in Illinois are?

Mr. STRAUS. No; I am under the impression, from the statement of counsel, that the matter could be amended by an act of the legislature, but I also understand that there are some difficulties——

Mr. MEEKS. Just a little further. What efforts have been made in the line of correction of the difficulties? You approached the Governor, I believe? You stated that?

Mr. STRAUS. Yes.

Mr. MEEKS. How far did you get with the Governor on that subject?

Mr. STRAUS. How far did I do what?

Mr. MEEKS. How far did you get into the matter with the Governor of Illinois?

Mr. STRAUS. I drafted a letter which I first signed myself, in one form, to the Governor, and subsequently, at the request of the President, I brought to him a group of letters addressed to governors of States which did not have adequate enabling legislation. One of those letters was to the Governor of Illinois, and that letter was dispatched by the President, and a reply was received to the effect that the matter would have the Governor's attention.

I do not have that letter with me.

Mr. MEEKS. It then was presented to his attorney general, as I understood you. There is no opinion from the attorney general of Illinois?

Mr. STRAUS. I do not honestly know that. I know that there is uncertainty as to whether it can be cleared up by an act of the legislature.

Mr. MEEKS. If it is a constitutional question, it cannot. It would require an amendment to the Constitution, which would necessitate a general election on that point, and it would have to be carried by a majority of the entire vote cast. It cannot be done by the legislature, if it is a constitutional question.

Mr. STRAUS. But we are not certain it is.

Mr. MEEKS. I am interested in this how this—act can be applied to the State of Illinois. I had that question up when we had the original bill here, and nobody seemed to be able to answer it, except to say that it would apply.

Now, as I get it, and if I am in error I want to be corrected, the policy of your administration is to apply the beneficial terms of the act to the larger centers of population. In Illinois it would be Chicago. In the State of New York, it would be certain large cities. In Michigan it would be Detroit; in Missouri, St. Louis; in Maryland, Baltimore; and in Massachusetts, Boston; in Pennsylvania, Philadelphia and Pittsburgh, and so on.

Now, as to cities running from 5,000 to 6,000 people, on up to 40,000 to 50,000 people, how is this act supposed to be administered?

Mr. STRAUS. Mr. Chairman, I would like to answer the Congressman, if I may. I would say that his statement was made without complete knowledge as to how the act has actually worked out in practice.

The bulk of our loans, and the bulk of our earmarkings, in number but not in amount, are to smaller cities. They range down to the very small populations. May I run over a few?

Mr. MEEKS. In our State. I am particularly interested in Illinois.

Mr. STRAUS. Mr. Chairman, I am perfectly helpless in Illinois. There is not any use earmarking in Illinois, if they have not any statute which enables them to take advantage of the act, and therefore we cannot earmark in Illinois.

Mr. MEEKS. Have you attempted to do so?

Mr. STRAUS. Yes, sir.

Mr. MEEKS. How far have you gone in that respect? I expect to interest myself in this very question. It is a question of changing the constitution in some way in the State of Illinois, and I want to lend my influence in that direction. If you are not prepared to answer here, I would like to get some communication from your office as to the difficulty in our State.

Mr. STRAUS. Thank you for saying that, sir.

May I answer the other question as to Illinois? In Illinois we have three earmarkings, \$16,000,000 for Chicago, \$1,500,000 for East St. Louis, and \$1,500,000 for Peoria, but I would like, Mr. Chairman, not to confine the thing just to one State and answer the point raised there, which I think is important; but I would like to say this, that this is not at all a program that is working only in the large cities, but it is working out everywhere.

I will run over this: In Alabama, our earmarkings are as follows: Birmingham, \$4,500,000; Gadsden, \$900,000; Mobile, \$1,400,000.

In California: San Francisco, \$15,000,000.

Bridgeport, Conn., \$6,500,000.

In Florida: Jacksonville has an actual contract of \$1,027,000. Miami is here earmarked at \$2,250,000; Orlando, \$450,000; Pensacola, \$900,000; St. Petersburg, \$900,000; and Tampa, \$1,500,000.

In Georgia, there is Athens, \$270,000 earmarked—and Athens happens to have a population of 18,000 that is associated with certain family memories, and I happen to know the figure; Augusta has an actual contract for \$1,369,000, and Savannah is earmarked for \$2,700,000.

I do not want to read the whole thing.

Mr. FARLEY. Read Indiana while you are at it.

Mr. STRAUS. Indiana: Anderson, \$750,000. Indiana is one of the liveliest States; they are at it all the time.

Mr. FARLEY. How about Fort Wayne?

Mr. STRAUS. Anderson, \$750,000; Decatur, \$50,000; Delaware County, \$400,000; Fort Wayne, \$1,500,000; Kokomo, \$600,000; Muncie, \$900,000; and Vincennes, \$270,000.

Mr. PATMAN. Read Texas.

Mr. STRAUS. Austin, \$643,000, which was the first one signed up, as A is in the beginning of the alphabet, and they were very active and very alive; El Paso, \$900,000 earmarked; Fort Worth, \$2,000,000; Houston, \$2,250,000; San Antonio, \$3,600,000; and Temple, \$180,000.

Mr. TRANSUE. Will you read Michigan?

Mr. STRAUS. In Michigan we are completely estopped by the local situation. Under the Michigan law, no housing commission may be established except in one city, Detroit. That is one of the States that I am most troubled about, but we have an earmarking for Detroit of \$25,000,000, and at the risk of skimming off the cream of news coming shortly, I think it will be in the next batch of contracts.

Mr. GOLDSBOROUGH. Gentlemen, don't you think it would be better to have Mr. Straus send you the earmarkings in your States?

Mr. PATMAN. Suppose that we put it in the hearings on this bill,

Mr. WILLIAMS. Just one question in that connection.

Mr. MEEKS. Pardon me just a moment. I had not quite finished.

Now, may I have, for Illinois, a statement from your office as to the difficulties that you encountered? I see that you earmarked nothing under 100,000 population there. I would like to get what the local difficulty is in Illinois, because if we are going to pass a nice fat pie around, I want our State to get some of it.

Mr. STRAUS. Yes, sir; and I am certainly with you, and I will appreciate your help.

Mr. McKEOUGH. May I offer an amendment to that request?

Mr. MEEKS. I do not know about an amendment. You may offer a suggestion, and I will see whether I will accept it.

Mr. McKEOUGH. Will you be good enough, Mr. Straus, when you reply to Congressman Meeks, to furnish me with similar information, and amplify it, if you will, by indicating what action has been taken to cure the disability?

Mr. STRAUS. I certainly would like to do it, and I appreciate the invitation.

Mr. GOLDSBOROUGH. Will you do this, for the benefit of the members of the committee? Will you include in your statement the various earmarkings which you have in the different States in the Union?

Mr. STRAUS. Do you mean to put it in the record, or read it?

Mr. GOLDSBOROUGH. Put it in the record.

Mr. STRAUS. I will do that. (Exhibit III.)

(The statement referred to is as follows:)

EXHIBIT III

The complete list of total commitments to date (including earmarkings outstanding, today's earmarkings, and loan contracts, signed) for 77 cities in 23 States and also the Territory of Hawaii is as follows:

State and city	Earmarkings outstanding	Loan contracts signed	State total
Alabama:			
Birmingham.....	\$4,500,000	-----	-----
Gadsden.....	900,000	-----	-----
Mobile.....	1,400,000	-----	\$6,800,000
California: San Francisco	15,000,000	-----	15,000,000
Connecticut: Bridgeport	6,500,000	-----	6,500,000
Florida:			
Jacksonville.....	-----	\$1,027,000	-----
Miami.....	2,250,000	-----	-----
Orlando.....	450,000	-----	-----
Pensacola.....	900,000	-----	-----
St. Petersburg.....	900,000	-----	-----
Tampa.....	1,500,000	-----	7,027,000
Georgia:			
Athens.....	270,000	-----	-----
Augusta.....	-----	1,369,000	-----
Savannah.....	2,700,000	-----	4,339,000
Hawaii	2,400,000	-----	2,400,000
Illinois:			
Chicago.....	16,000,000	-----	-----
East St. Louis.....	1,500,000	-----	-----
Peoria.....	1,500,000	-----	19,000,000

State and city	Earmarkings outstanding	Loan con- tracts signed	State total
Indiana:			
Anderson.....	\$750,000		
Decatur.....	50,000		
Delaware County.....	400,000		
Fort Wayne.....	1,500,000		
Kokomo.....	600,000		
Muncie.....	900,000		
Vincennes.....	270,000		\$4,470,000
Kentucky:			
Covington.....	1,400,000		
Frankfort.....	450,000		
Louisville.....	4,000,000	\$4,261,000	10,111,000
Louisiana: New Orleans.....	10,000,000	8,411,000	18,411,000
Maryland:			
Annapolis.....	400,000		
Baltimore.....	15,000,000		15,400,000
Massachusetts:			
Boston.....	9,000,000		
Lowell.....	2,700,000		11,700,000
Michigan: Detroit.....	25,000,000		25,000,000
Montana: Billings.....	270,000		270,000
Nebraska: Omaha.....	2,100,000		2,100,000
North Carolina: Wilmington.....	630,000		630,000
New Jersey: Montclair.....	900,000		900,000
New York:			
Buffalo.....	4,900,000		
New York City.....		30,000,000	
Schenectady.....	1,400,000		
Syracuse.....		3,930,000	
Utica.....	900,000		
Yonkers.....	2,200,000		43,330,000
Ohio:			
Akron.....	1,800,000		
Cincinnati.....	10,500,000		
Cleveland.....	18,000,000		
Columbus.....	4,500,000		
Dayton.....	3,000,000		
Toledo.....	1,800,000		
Warren.....	1,000,000		
Youngstown ¹	765,000	2,835,000	
Zanesville.....	1,350,000		45,550,000
Pennsylvania:			
Allegheny County.....	1,800,000		
Allentown.....	1,350,000		
Chester.....	1,250,000		
Harrisburg.....	1,500,000		
McKean County.....	400,000		
McKeesport.....	900,000		
Philadelphia.....	22,000,000		
Pittsburgh.....	13,500,000		
Reading.....	1,500,000		
Seranton.....	1,000,000		45,200,000
South Carolina:			
Charleston.....	2,000,000	1,017,000	
Columbia.....	800,000		3,817,000
Tennessee:			
Johnson City.....	300,000		
Knoxville.....	1,800,000		
Memphis.....	5,000,000		7,100,000
Texas:			
Austin.....		643,000	
El Paso.....	900,000		
Fort Worth.....	2,000,000		
Houston.....	2,250,000		
San Antonio.....	3,600,000		
Temple.....	180,000		9,573,000
West Virginia:			
Charleston.....	2,500,000		
Huntington.....	2,250,000		
Morgantown.....	270,000		
Wheeling.....	1,350,000		6,370,000
Total.....	257,505,000	53,493,000	310,998,000

¹ Balance from initial earmarking not included in initial loan contract.

Mr. TRANSUE. Just one question in regard to the same question that Mr. Meeks asked you. I would like to get the same information for Michigan. In fact, I have asked your authority some time ago for it, and have not received it.

Mr. STRAUS. You did not receive it? I am very particular about these requests from Congressmen for earmarkings, to see that they are answered the same day. I am very much disappointed, and apologize. It won't happen again.

Mr. LUCE. In my district there is the town of Watertown, which contains a Federal arsenal. Suppose that we estimate the value of that at \$1,000,000. If it were privately owned it would pay \$40,000 in taxes. Do I understand you to reason that because the town of Watertown cannot tax that arsenal, it is making a contribution of \$40,000?

Mr. STRAUS. That, sir, is precisely an excellent and unusually clear statement of the theory which the municipalities hold as to the local contribution. You stated it better than I can. They feel that when there is a piece of property there which is not completed—and this Congressman raised that point, not as it is today—it would be taxed at a certain amount, and that if it is not so taxed, they consider that a local contribution.

Mr. LUCE. This arsenal has been there for 40 or 50 years, perhaps more or less; I do not know the exact time, but I never heard anybody suggest that the town of Watertown was making any contribution to the Government.

Mr. STRAUS. I wish that you would sit with me in some of these things when the localities come in and explain about the big contributions they are making when they provide for this tax exemption.

Mr. GOLDSBOROUGH. If the Federal Government puts up a building for a local community which they want put up, which they did not have before, and which was not taxable before, I do not believe that you will ever get this committee to think that that is a contribution by them. I think that that is a joke.

Mr. STRAUS. That is the way they figure it, as a contribution.

Mr. MEEKS. It does not amount to a joke, even.

Mr. CRAWFORD. Will you yield there on that point?

Mr. GOLDSBOROUGH. Certainly.

Mr. CRAWFORD. Isn't that the very philosophy which was grounded and beaten into this original bill when it went through here, to the effect that if the local communities did that very thing, they would be making a contribution?

Mr. STRAUS. Oh, surely. I think everybody would agree that that is the philosophy of the act. But as I understand the point that the gentleman was raising, it is as to whether or not the localities really are being penalized to the extent that they think they are when they partially or completely waive taxes on something that they did not previously have.

Mr. GOLDSBOROUGH. They are evidently not being penalized at all, and I think that we ought to approach this thing on a more rational basis. I would not be surprised if the majority of this committee are in favor of this bill, but not on any such basis as that, that communities, when they get something they want and did not have before, and were not getting any taxes on before, are making a contribution because they do not tax that particular something.

I do not believe you will ever get anywhere with this committee on that sort of a basis.

Mr. STRAUS. There is not any suggestion on my part to make any change in the existing law on that, but the fact is, as you will find out if you talk to your own mayors or city councils, that they regard a completed building at its full value as a building, and they put it on the tax rolls at that figure, and to the extent that they do not collect those taxes on it, they consider that a contribution.

Mr. GOLDSBOROUGH. Maybe they do that, but they are not rational when they do it.

Mr. STRAUS. They tell me, of course, that they are giving sewerage service, and they are giving police protection, school service, and so forth, for those buildings, and that they are tax-exempt.

Mr. FISH. Is it not true that in slum clearance projects, you tear down existing buildings that do pay taxes? They are owned by somebody, and those people who own them have to pay taxes.

Mr. STRAUS. That is a perfectly tenable view.

Mr. FISH. In that respect there is justification for their claim, because those slum dwellings are replaced by Government buildings that are not taxed. It is not like putting an armory in some city where no building existed before and no taxes were paid. It is an entirely different proposition. If you clear away slum houses existing on which taxes are paid, you certainly lose those taxes.

Mr. STRAUS. I think——

Mr. FISH. I just wanted to show the other side of the picture.

Mr. STRAUS. May I speak on that, because it seems important to get this made clear, that I think you have to think of all of these things in terms of a program, and while I have no great sympathy for the occasional contention of cities of the burden imposed by reason of these contributions, nevertheless, looking at the thing realistically, if one-third, one-fourth, or one-fifth of the population of the cities has to be rehoused with Government subsidies, and if they are to have that many buildings which are not paying their full amount of taxes, you cannot honestly say to the cities that they are not making a contribution and they should not have contribution figured in. If you go to the utmost extreme, they might say that they are not able to collect any taxes for any of that property, and that they are making a contribution. My only feeling when I spoke before was that the extent of the contribution is at times exaggerated by the cities when they claim that by granting these tax exemptions on a building which theretofore did not exist, they are making a large contribution.

Mr. FISH. Let me understand how this operates. Before you enter into your contracts, do the cities come in and give a definite pledge of their contribution of the exemption of taxes?

Mr. STRAUS. That is right.

Mr. FISH. The city gives a signed pledge?

Mr. STRAUS. The city gives a signed pledge of the extent to which it will tax or not tax the property.

Mr. FISH. What is the law? How much does a city have to contribute?

Mr. STRAUS. One dollar for every five dollars we put up.

Mr. FISH. Twenty percent?

Mr. STRAUS. Twenty percent.

Mr. FISH. And your bill changes that to 10 percent?

Mr. STRAUS. It does not touch that in any way. We are not asking for any change in our act, except more money, and the right during the next year to loan up to 100 percent of the project.

Mr. FISH. You are asking in this bill for \$1,000,000,000, are you not?

Mr. STRAUS. Yes, sir.

Mr. FISH. That is an addition over what you have now, is it not?

Mr. STRAUS. Five hundred million dollars addition. Actually, as far as this year is concerned, it is \$700,000,000 more.

Mr. FISH. But we authorize \$500,000,000 more altogether?

Mr. STRAUS. Yes, sir.

Mr. FISH. Are these bonds or these issues guaranteed by the Government of the United States?

Mr. STRAUS. They are.

Mr. FISH. Are they tax-exempt?

Mr. STRAUS. I think that they are tax-exempt today, yes.

Mr. FISH. Will they continue to be tax-exempt under this proposition?

Mr. STRAUS. I am not touching any of that, sir.

Mr. FISH. But you have a bill before us and you are asking for the issuance of another \$500,000,000 for your building projects.

Mr. STRAUS. Yes.

Mr. FISH. Are those to be tax exempt?

Mr. STRAUS. I do not know. I am not trying to fence with you. I do not get you at all. Are not Government bonds under the present law tax exempt?

Mr. FISH. Not at all. It is entirely up to Congress.

Mr. STRAUS. These are tax exempt.

Mr. FISH. I am asking you whether the \$500,000,000 additional——

Mr. STRAUS (interposing). The answer is yes.

Mr. FISH. It is in direct violation, then, of the President's recommendation, is it not?

Mr. STRAUS. I thought, under the President's recommendation, that all of this type of bonds would be generally taxed; and then this would be, too. So these would be taxed, then, if you pass that act.

Mr. McKEOUGH. If you issue the bonds for this \$500,000,000 after we pass that law——

Mr. STRAUS (interposing). Then they are taxable.

Mr. FISH. There is nothing said about that here. That is what I want to know.

Mr. McKEOUGH. I think that there ought to be some amplification, such as that they are subject to any future law passed by Congress.

Mr. FISH. When I asked Mr. Straus, he said that they are tax exempt. Now he says that they will not be.

Mr. STRAUS. Congressman, I wonder if that is quite fair. You asked me if they are now tax exempt, and then you asked if they would be if the President's recommendation should be adopted. The answer that I wanted to make is that under the present law they are tax exempt, but I know that Congress can change the law.

Mr. FISH. I wanted to know whether you thought these would be tax-exempt under this bill, or not.

Mr. McKEOUGH. He does not know.

Mr. FISH. As to this bill, I am asking him about the provision in section 20, whether that means that they should be tax-exempt or not.

Mr. STRAUS. I would think that these bonds of the Federal Government should be treated precisely as other Federal bonds, and if the Congress decides to leave them tax-exempt, then these should also be tax-exempt. If the Congress decides, in line with the President's recommendation, to tax bonds of this character, then these also should be taxed.

Mr. FISH. You are raising a really important issue.

Mr. STRAUS. I do not want to. I would rather avoid it.

Mr. FISH. If we do not make them tax-exempt, then the question is, could you sell these bonds? Could you get the money if they are not tax-exempt?

Mr. STRAUS. I do not know. That is a financial matter, on which I would not qualify as an expert.

Mr. GOLDSBOROUGH. You haven't any doubt about it?

Mr. STRAUS. I only can say that as to bonds that were sold tax-exempt, the actual interest rate was something under 1 percent, and if you added on taxes, it does not seem they would be very difficult to sell. The demand for them is fully in excess of what the supply is today, I am informed by the Treasury.

Mr. FISH. You have not tried to sell them?

Mr. STRAUS. I have not tried, but it is difficult for me to believe that bonds which are federally guaranteed, in your lifetime or mine, might not be a marketable commodity.

Mr. KOPPLEMANN. Did I understand you earlier in your testimony to say something about a time limit to July 1, that in the fiscal year you are going to spend \$125,000,000, and there was——

Mr. STRAUS. I take the calendar year.

Mr. KOPPLEMANN. Would the difference between what you spend and what you had allocated to you have to go back to the Treasury, or is there no time limit on the use of that?

Mr. STRAUS. No time limit on that.

Mr. SPENCE. With reference to the consideration that was raised in regard to tax exemption, it seems to me that the illustration that was given of the arsenal, which is built with Government money and owned by the Government, and where no local subdivision has any authority to tax it, is very different from a case of tax exemption granted to your corporation, because I understand that if there was no tax exemption, it would otherwise be taxed?

Mr. STRAUS. That is absolutely correct. This is a voluntary act in our case.

Mr. SPENCE. And in every instance they have the power to tax your projects, because they are not purely public projects; they are owned by the local corporation, and are taxable?

Mr. STRAUS. That is correct.

Mr. FORD. I would like to ask one question. Do I understand that if a city puts up \$100,000 originally on a 1-million-dollar project, the yearly contribution would be \$35,000? Then the city's contribution, or 20 percent of that, would be \$7,000. Then would you take this \$100,000 and spend it over 60 years and deduct that \$1,600 from the \$5,400? Supposing that they were going to pay \$7,000 in cash; would you give them credit for that?

Mr. STRAUS. Do you mean under the amended act, or the original act?

Mr. FORD. Original act.

Mr. STRAUS. Under the original act, there is no consideration given whatever to the amount of the 10 percent. We pay no further attention to that.

Mr. FORD. What you want to do is, you want so to amend this act that that \$100,000 put up will be part of the local contribution over the 60-year period, and divide it into 60 annual payments?

Mr. STRAUS. We do not actually phrase it that way. What we want to do now is to lend that community 100 percent of the cost of the project, instead of lending it only 90 percent, and what I endeavored to point out was that the amount of local tax exemptions and other contributions that we are getting at the present time constitute very much more than the annual yield on the 10 percent which you gentlemen originally had in the contract.

Mr. SPENCE. Are all of these tax exemptions unlimited as to time?

Mr. STRAUS. For the life of the project, and we are careful not to execute a contract until we are assured of that. In some places we are making the payment in lieu of taxes of a small amount, where they have some great need, where they say they have some particular expense, but I have kept that down so the effective amount of the local annual contribution is in excess of 60 percent.

Mr. WHITE. I would like to ask you several questions.

How much time has elapsed since the original law was adopted?

Mr. STRAUS. I cannot tell you. I know that I was appointed November 1.

Mr. WHITE. About 7 months since the original law was adopted?

Mr. STRAUS. I was appointed November 1.

Mr. WHITE. I think that that figures about 5 months, does it not?

Mr. STRAUS. That is right; almost 6 months.

Mr. WHITE. In that time, in the 7 months since the original law was adopted, and in the 6 months that you have been appointed, how many projects have you commenced?

Mr. STRAUS. Physically commenced?

Mr. WHITE. Yes.

Mr. STRAUS. None.

Mr. WHITE. That is what I am getting at. You had the Authority for 7 months, and you have been in charge of the administration for better than 6 months. You had a large sum of money available for construction, and you are now coming back and asking for an increase of \$500,000,000.

Why should we appropriate \$500,000,000 when there has been no evidence of the prompt use of the money that had already been appropriated?

Mr. STRAUS. I am awfully glad that you asked that question. I was hoping that somebody would ask it soon. It is a perfectly natural one, and exactly the one that I would ask if I were in your position.

The reasons why I am coming back and asking for more money, or why I am in the position of the boy asking for the second piece of pie before he is able to swallow the first one, is fundamentally this: The day that I was handed the \$500,000,000, I could have handed out \$100,000,000 of it if I had wanted to, but I conceived this thing as a real program for rehousing America under conditions very rigorously laid down by you. There has not been a policy, and there won't be a policy of handing money out or ladling it out. This money is being

expended in accordance with a definite program. That definite program requires, first, that you have local authorities. There were less than 50 when I took office. There are more than 150 today. Under those conditions, and the conditions for equivalent demolition, there was only a certain rate of speed at which you could proceed.

In the beginning we were accused of being very slow because we did not make any earmarkings. We did the earmarking, and then we were accused of being slow because we had not executed any contracts. We did the contracts, and then we were accused of being slow because we had not paid out any money. We have commenced to pay out the money only last week, and now we are accused of being slow because we are not starting digging.

This thing is like a snowball. It starts very, very slowly, but it gathers continual momentum as it goes along, or grows like a flower bursting into bloom, if you prefer that. Here you have something which is slow in the beginning. The tree was taking root. We were getting our legislation. We were having our local authorities set up. We were establishing our procedures.

But now we are on our way. We have established rentals in these cities of from \$2.75 per room per month in Austin, Tex. to \$5.15 per room per month in New York, and we are rehousing the slum dwellers.

You may say that that is hot air, but let me talk figures to you. During the first month the loan contracts which I took over to the President for approval, which was the month of March, amounted to only \$16,000,000. This month I took over contracts to him for a total of \$36,000,000 involving \$40,000,000 worth of projects. I am going to take over contracts within two weeks in excess of \$50,000,000, and I think I can assure you that the amount of the contracts which will be available for Presidential approval, will not fall below \$50,000,000—

Mr. WHITE. All right, but—

Mr. STRAUS. Let me finish.

Now, you can easily say that those are only contracts executed; what about the paying out of the fund? That, sir, will involve a lag of between 60 and 90 days from the time of the signing of the contracts. We will have ground breaking on our first contract in about 2 or 3 weeks from now, which will be 2 months from the time they were signed; but if we are going to have employment in October and November, and even in September, to any very substantial amount, we have got to commence to plan ahead for it now, if that money is going to be expended so as really to rehouse slum dwellers in addition to putting men to work.

Mr. WHITE. Let me examine your explanation. That is the reason that you give. Isn't it true that there were many housing projects in this period as to which no construction was commenced, that there have been many housing authorities come into existence, that there have been many States in which the legislation would permit going ahead with the program, and isn't it also true that there has been a tremendous need, particularly an increased need since last November for employment in these communities, and in all of this time there has been nothing concretely done to meet that situation?

Mr. STRAUS. I would say, as nearly as anyone can answer that question, that the answer is "no".

Mr. WHITE. Let me ask you this question——

Mr. STRAUS. May I amplify that by saying that if the question is as to whether, as you said, in the end nothing has been done, I think that that is really quite a reflection on my staff, and on myself.

We have perfected in 6 months here an instrument, a machine, a weapon for the demolition of the slums of America in connection with your act that has taken in other countries from 1 year to 3 years, and we will have construction under way, if we have the money to do it, that will be in excess of anything yet in any program in this country or elsewhere.

Mr. WHITE. Of course, this movement did not start 6 or 7 months ago. You had the benefit of the experience of those foreign countries, and in addition to that there have been years of study as a preface to your action.

I want to ask, if the natural development is the sole cause for delay, did you or did you not have a bunch of projects that were already completed, for which plans were drawn, that you had inherited from the W. P. A.?

Mr. STRAUS. The answer to that is that I did not.

Mr. WHITE. The P. W. A.

Mr. STRAUS. I understand you; the answer is that I did not. There were no plans available anywhere for any projects that met the requirements of this act as to financing, local participation, costs, or equivalent demolition.

The answer to your question, Congressman, is an unqualified no.

Mr. WHITE. I am glad to hear that, and I hope that you are absolutely correct on it.

Mr. STRAUS. I am. I am very correct.

Mr. WHITE. Because I understood that there were a number of projects that had been approved by P. W. A., and for which plans had been completed, and upon which no action had been taken.

Mr. STRAUS. That is absolutely correct.

Mr. WHITE. Despite the advanced stage of those plans.

Mr. STRAUS. That is absolutely correct.

Mr. WHITE. Let me ask you this: You say that all this time, according to the answer as I understand it, there have been no projects started to date.

Mr. STRAUS. That statement, of course, is not correct, because three projects had been started up to last night, and I think a fourth will be started today.

Mr. WHITE. You stated a moment ago that you had not started to work on any of them.

Mr. STRAUS. It is hard to answer that with a fair answer. I will never start work on any project. Loans have been executed for nine cities, and the responsibility for the future is entirely in the hands of those cities. Three of those cities have made an actual request for funds, and I assume that in those cases, since they have the money, they have commenced to spend.

Mr. WHITE. In a few words, what is the number and the nature of your allocations so far?

Mr. STRAUS. The number and the nature of the loan contract allocations so far total \$53,493,000 to nine cities in eight States.

Mr. WHITE. That is the summary of the number and nature of your allocations so far?

Mr. STRAUS. Then there are earmarkings to a total amount of \$310,000,000.

Mr. WHITE. For how many cities?

Mr. STRAUS. Seventy-seven, I am told.

Mr. WHITE. So that your progress so far affects the preliminary action of a total of 86 cities? Is that right?

Mr. STRAUS. No, the 77 cities include those in which projects are covered by the 9 loan contracts.

Mr. WHITE. And that is the sum total for everything?

Mr. STRAUS. That is correct.

Mr. WHITE. Let me ask you, Mr. Straus: You have had some trouble in your department, haven't you?

Mr. STRAUS. Absolutely no trouble of any kind.

Mr. WHITE. Did you have a man there by the name of Walter Onslow, assigned to your agency from the P. W. A.?

Mr. STRAUS. Walter Onslow is connected, I believe, with the publicity department of the Interior Department.

Mr. WHITE. Wasn't he assigned from the P. W. A. to the Housing Administration?

Mr. STRAUS. Nobody can be assigned from the P. W. A. to us.

Mr. WHITE. Now——

Mr. STRAUS. Let me answer you, please. A certain number of Federal employees were transferred at the same time the projects were transferred, the 51 P. W. A. projects. Mr. Onslow was not one of those employees, as I recall it.

Mr. WHITE. Mr. Onslow has not been on your pay roll, or working for you?

Mr. STRAUS. Mr. Onslow assisted me for the first few days I was there, as a good many people in the P. W. A. Division did. Whether he was actually paid out of our funds for that, I do not know.

Mr. WHITE. Then he did work for you?

Mr. STRAUS. Several of the people there assisted me from time to time.

Mr. WHITE. How long was he with you?

Mr. STRAUS. He was not with us at all.

Mr. WHITE. You just said that he did some work for you.

Mr. STRAUS. Let us get this straight——

Mr. FORD. What has this to do with this question here?

Mr. WHITE. The question is, what are the reasons for the way in which the original bill has been administered.

Mr. FORD. It is nonsense. Let us get to the amendments at issue.

Mr. WHITE. I insist on asking these questions, because they are germane.

Mr. FORD. They are not germane at all.

Mr. WHITE. They are germane to the way in which the original bill has been administered.

Mr. FORD. You are just playing politics.

Mr. WHITE. No; you never heard me say a word about politics.

Mr. McKEOUGH. I move we adjourn.

Mr. WHITE. Let me conclude. I have two or three more questions.

Mr. GOLDSBOROUGH. Now, gentlemen, I do not have the slightest idea of what Mr. White has reference to. This, of course, is a matter involving the present condition of the country, in which we are all

interested, and I am sure we all feel that there are no personalities or politics in it, and I am sure that we are trying to avoid those things. I am not disposed to cut off Mr. White, and I think he is probably through with that line of examination.

Mr. WHITE. I have just two questions to ask along the same line, and I am not trying to lay any responsibility at Mr. Straus' door. What I am trying to find out is, without the bringing in of any question of politics, whether or not there has been any impediment laid in his way or if there has been any internal dissension that has been responsible for the fact that no such projects have been started, but if there has, I think that we ought to know it.

Mr. McKEOUGH. I think that that is purely a matter of personal opinion. I do not subscribe to the idea that there has been any delay.

I move we adjourn.

Mr. McGRANERY. I second the motion.

Mr. GOLDSBOROUGH. Please withhold that motion.

Mr. McKEOUGH. All right; I will withdraw it.

Mr. WHITE. Let me ask you about these other people, too.

Mr. STRAUS. May I, in fairness, say that I really do not like the statement to go on the record that there has been delay. In my belief, no other program anywhere has gotten under way as quickly as this. There were difficulties. There were obstacles, and the talk of all the obstacles is something that you cannot help, but which I think is one of the best features of the bill, and that is that it places the local responsibility upon the local authorities, which did not exist at the time this thing was taken over. We have had to educate those local authorities. They have had to educate themselves.

Mr. KOPPLEMANN. Would you say that that was the main cause of the total delay?

Mr. STRAUS. I would say that it was. I cannot conceive of the word "delay" when a thing has been in existence less than 6 months, and when we have already contracted for these millions of dollars. I do not think there has been any delay.

Mr. WHITE. Let me put my question this way: I have cooperated, as the members of the committee know, in the development of the original bill, and I have cooperated with this committee on a non-political basis. I cooperated with the R. F. C. and was the only member of the committee that got up on the floor of the House and said that it does what it says it will do, but I will say, on a non-political basis, that there has been common talk of internal dissension all over, and you cannot ignore that fact.

Is there any substance to this talk of internal dissension, part of which is evidenced by this case of Mr. Onslow, and part of which is evidenced by the resignation of Farmer Murphy in the publicity division, and others who have been there. Has there been any internal dissension which you think has in any way impeded your progress, which is in any way responsible for the fact that we do not have more projects in process of operation?

Mr. STRAUS. I think that that is a perfectly fair question, and I would like to answer it by saying that there has been, and is, nothing resembling internal dissension. I would like to add that the speed with which we have achieved a smooth functioning and effective organization surpasses anything I have ever been able to see in any

private organization of which I was a director or president. There is a degree of loyalty, of unanimity, of pulling together among our staff that I think would be a model for people anywhere in the country.

I would like to show you the way they act. The biggest trouble that I have is in making them go home at night. They work until 10 and 11 o'clock.

Mr. WHITE. You say that there is absolutely no dissension, and it has not impeded your progress?

Mr. STRAUS. I say to you that we have and have had an organization as smooth functioning as could be found anywhere.

If you change that question and you ask, "Have you had complete success with every employee whom you have taken on since the time you have been there?"—I would say that if I had that sort of ability, I would be a good deal abler than I hope to be.

Mr. McKEOUGH. If you would be anything else, you would certainly be a marvel.

Mr. WHITE. Was that question unfair to ask you?

Mr. McKEOUGH. I move that we adjourn.

Mr. GOLDSBOROUGH. Please withhold that.

Mr. WHITE. If you want to go ahead, go.

Mr. McKEOUGH. If you would come in on time, a lot of this would be unnecessary. I have an appointment, and I have to leave. I am anxious to hear Mr. Straus, and I do not think he had completed his statement, and I presume that the Chair will call a meeting sometime in the future.

Mr. GOLDSBOROUGH. We can finish in a very few minutes.

Mr. McKEOUGH. I withdraw the motion.

Mr. GOLDSBOROUGH. You do not have anything further?

Mr. WHITE. No; that was a fair question and answer.

Mr. GOLDSBOROUGH. I want to get this over with, and resume our normal function.

Now, gentlemen, it is 5 minutes of 12, and several members want to question Mr. Straus. Would it be agreeable for you to come back tomorrow morning, Mr. Straus?

Mr. STRAUS. Surely, any time.

Mr. GOLDSBOROUGH. Mr. Keyserling, will you furnish the information which is desired by Mr. McKeough, Mr. Meeks, and Mr. Spence?

Mr. WHITE. I would like to have it for Ohio.

Mr. GOLDSBOROUGH. And Mr. Crawford, Mr. Transue, and Mr. Kopplemann? What they would like to have is that information in the mail tonight, so that they can have it for tomorrow morning's hearing.

Mr. KEYSERLING. They will have all of that information.

Mr. FORD. Include California, too.

Mr. GOLDSBOROUGH. In other words, while we recognize the great importance of this measure, at the same time you might expedite it as far as it is humanly possible to do it; and we will adjourn until tomorrow morning at half past 10.

(Thereupon, at 12 o'clock noon, an adjournment was taken until Friday morning, April 29, 1938, at 10:30 o'clock.)

AMENDMENTS TO UNITED STATES HOUSING ACT OF 1937

MONDAY, MAY 2, 1938

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met to resume consideration of H. R. 10417 at 10:45 a. m., Hon Michael K. Reilly presiding.

Other members of the committee present: Mr. Williams, Mr. Spence, Mr. Farley, Mr. Meeks, Mr. Kopplemann, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Transue, Mr. Gifford, Mr. Luce, Mr. Crawford, and Mr. Gamble.

Mr. REILLY. The committee will come to order.

Mr. Straus, you may proceed.

STATEMENT OF HON. NATHAN STRAUS, ADMINISTRATOR OF UNITED STATES HOUSING AUTHORITY

Mr. STRAUS. Mr. Chairman, before I refer to the map over here, to which I would like to call your attention, I would like to get something on the record which seems to me of importance in view of the testimony the other day. I am afraid that I failed to make one thing plain, and I think that it is in the interest of the bill itself, as well as in the interest of your understanding of the amendments that we are seeking, that I should make this plain.

I refer to the matter of tax exemption which is used in this program, local tax exemption, and the point that I am trying to make is that the contention that tax exemption of a project does not constitute a local contribution is not a tenable position, and I would like to state exactly why that is so.

Mr. REILLY. Pardon an interruption for just a moment. There are two phases of that tax exemption. Where a city gets a housing project, the amount of the tax received is nowhere equal to what would be reflected on the complete project. That is the thing that I think Mr. Goldsborough had in mind, and the committee had information a year ago that many of these slum-clearance projects were a loss to the city. They got nothing out of them.

Mr. STRAUS. Mr. Chairman, I am glad to answer that to the best of my ability, as well as any questions that the committee may put to me, but I would like to have the privilege, because of the importance of this matter, of completing the statement that I had just begun, and it won't take over 5 or 6 minutes. Is that all right?

Mr. REILLY. Go ahead.

Mr. STRAUS. The explanation of this question of tax exemption is important, because it must be right, as far as I am concerned, anyhow.

I have distributed to you this morning a memorandum entitled "Tax exemption can and should be counted as a local contribution in the amount which would normally be levied as a tax."

(The memorandum referred to is exhibit IV which is set forth as follows:)

EXHIBIT IV

Tax exemption can and should be counted as a local contribution in the amount which would normally be levied as a tax, for the following reasons:

First. Because the United States Housing Act expressly permits tax exemption to be counted as a local annual contribution (sec. 10 (a)).

Second. Because, in the absence of State constitutional or statutory provisions, these projects would be subject to local taxation, since they are locally owned and are not federally owned as in the case of a Federal post office where the property would be automatically exempt from local taxes: Since the projects are not Federal projects, but are locally owned, some voluntary, positive step is necessary if these projects are to be exempt from taxation. In the absence of any constitutional or statutory provision, these projects would be subject to taxation. It must be remembered that there is nothing inherent in public projects which makes them exempt from taxation. Tax exemption is always a matter of privilege and not a matter of right. Thus, there are four States where the housing laws do not expressly grant tax exemption, with the result the projects are recognized as being subject to normal real-estate taxes. In other words, it is optional with the State either to grant or withhold tax exemption. Public housing projects are subject to taxation unless they are expressly exempted by State law, constitutional or statutory.

Third. Because in most of the State housing laws, the local housing authorities and the cities are authorized to fix, or enter into contracts for, payments by the local authority to the city for services in lieu of taxes: While tax exemption is granted, these State laws permit the local authority and the city to require payments in substitution for taxes on the projects. In computing the annual value of tax exemption, the United States Housing Authority only gives credit for the difference between the normal taxes which would be charged and any payments to be made for services. In most cases no payments are made in lieu of taxes for such services, and in all cases the payments are limited to a very small sum which does not exceed 5 percent of the shelter rent on the project. The localities contract over the entire life of the project not to charge for regular municipal services which they are to furnish and which cost the localities large sums.

Fourth. Because tax exemption is just as effective a method of getting low rentals as cash contributions to meet part of operating expenses or debt service: In the absence of tax exemption, the taxes on a project would be a charge which would have to be met from rentals or from cash subsidies, just like operating expenses. If tax exemption were not granted, the Federal subsidies would have to be higher or the rents would be much higher. Cities throughout the country have found that tax exemption was the only feasible way to provide local annual contributions in the substantial amounts which (together with the Federal contributions) are necessary to achieve low rentals that slum dwellers can afford. Cities have been unable to provide cash contributions because of their financial condition and constitutional and statutory debt limitations. Tax exemption as a contribution is both legally feasible and practically effective in getting low rents.

Fifth. Because taxes are now being collected from the sites to be used for the projects and because taxes are being collected (as part of their rent) from the families who are to inhabit the project: A vacant or sparsely settled site may pay a very small tax and, correspondingly, it will require relatively few municipal services. When this site is improved, the property and its occupants will naturally require a substantially increased amount of municipal services. Correspondingly, State laws invariably provide that such improved properties are taxed at a higher rate than vacant land—a rate which is based on its assessed value. These taxes are borne (as part of their rent) by the families who occupy the property. When a public housing project is constructed upon a vacant or sparsely settled site, the families who formerly lived in taxed properties will continue to be furnished with municipal services, even though they now live in a project which is exempt from taxation. In short, the city is making a real contribution through tax exemption, for it must furnish, and pay the cost of, municipal services without receiving any taxes from the project or its occupants.

Sixth. Because the proper method of determining the value of tax exemption is to ascertain the tax which would be charged against the project on the basis of current laws and practices, in the absence of a specific grant of tax exemption: Thus, in the case of five limited-dividend projects originally financed by the Public Works Administration, the average tax now being charged and collected by the localities amounts to \$2.09 per room per month. If a limited-dividend project were to be acquired by a local housing authority and devoted to low-rent housing purposes with the benefit of Federal annual contributions, it would certainly not be contended that the value of tax exemption was any less than this amount which is now being collected as a tax from these projects. If these taxes were being waived or remitted, the fair measure of the local contribution would be the amount of the taxes now being charged on these limited-dividend projects. In the same way, the fair measure of the local contribution represented by the tax exemption of a public housing project is the amount of the taxes which would be levied on both the land and buildings constructed.

General summary.—The United States Housing Authority, in aiding a housing project, is in the dual position of (a) a banker with respect to its original development loans and (b) a Government agency interested in the social objective of low rentals with respect to its annual contributions. Insofar as United States Housing Authority loans are made to projects, these projects are in exactly the same position as projects financed by the Reconstruction Finance Corporation or insured by the Federal Housing Administration. The Federal Housing Administration projects and the Reconstruction Finance Corporation railroad and other projects are subject to local taxes notwithstanding Federal loans. Housing projects aided by United States Housing Authority loans would also be subject to such taxes unless tax exemption were conferred by the State as a local contribution or subsidy.

If projects were aided only by loan from the United States Housing Authority with no Federal or local annual contributions or subsidies, the rentals would be clearly beyond the reach of the low-income families living under slum conditions. The purpose of Federal and local annual contributions or subsidies is to make up the difference between the economic rent which would be charged in the project to meet operating expenses and debt service (including taxes) and the social rent which these low-income families can afford. Just as the Federal Government makes its annual contribution or subsidy in the form of cash to meet part of the annual charges on the project (and thus reduces rentals) so the local Government makes its annual contribution or subsidy in the form of remission of normal annual tax charges (and thus reduces rentals).

In England a local annual cash contribution is made, but full local taxes are collected from the project with the result that the local taxes collected from the project substantially exceed the local cash contributions. In America, the local contribution in the form of tax exemption will therefore represent a substantially higher local contribution than that obtained in England. Moreover, tax exemption is the only feasible means in America of obtaining the necessary continuing local donations in sufficient amount to assure low rentals.

The points that I want to make in that connection are fourfold, and I can state the whole four in 5 or 6 minutes.

First of all, the question as to whether tax exemption constitutes a local contribution is not something which is before you gentlemen today officially to determine. You made that determination in section 10 (a) of the act, which expressly permits tax exemption to be counted as a local annual contribution.

Mr. WILLIAMS. That would not keep us from changing it if that privilege has been abused, in our opinion.

Mr. STRAUS. Surely. I merely wanted to point out that it is not a precedent under the legislation that I am seeking.

Second, in the absence of State constitutional or statutory provisions all projects would be subject to local taxation, since they are locally owned and are not Federally owned projects. Federal property, of course, is automatically exempt from taxation. These projects are only exempted in each case by specific State legislation, enabling legislation confirmed by specific local action. That is, it is optional with the people in each State.

Third, under most of the State housing laws, the local housing authorities and the cities are authorized to enter into contracts for payments by the local authority to the city for services in lieu of taxes, and in several cities we are making those payments for services in lieu of taxes; not to the whole amount of what the tax would be, but some small proportion in the individual cases.

Mr. SPENCE. For what services?

Mr. STRAUS. Services rendered in return for taxes—schools, street maintenance, police, fire—payments in lieu of taxes.

Now, most important of all is the fourth, and it is one on which I misspoke myself the other day. The question was asked by one of you gentlemen as to why one of these housing projects should not be considered exactly like an armory, I believe it was, something automatically tax-exempt. Gentlemen, it seems to me that the analogy is not with an armory, but more directly with some sort of a project financed by a loan of Federal funds as this one is.

Let me pick a specific one. One of you gentlemen is in business in a State, and you borrow from the Federal Government through the R. F. C.—you secure a loan to build a new plant for your business. That plant, when completed, is put on the tax roll and is assessed at its full value by the local tax assessors. Those taxes are locally collected.

Now, surely if those taxes were not collected, that would constitute a contribution by the locality in the exact amount by which the taxes which would have been assessed and collected are remitted. That is a local annual contribution.

Mr. FORD. Permit me to interject a question there.

Mr. STRAUS. Yes, sir.

Mr. FORD. The Government, however, would not be putting up each year 3½ percent of the amount of its loan to help repay it.

Mr. STRAUS. That is quite true; in the case of the private project financed by the Government loan, there is neither the United States subsidy nor is there the local subsidy, and that is where a housing project of this kind, to rehouse slum dwellers, differs from the private undertaking, in that it has both subsidies.

Mr. FORD. Another observation—

Mr. STRAUS. Go ahead.

Mr. FORD. Among the arguments made before this committee when this bill was originally proposed was the fact that cleaning up of the slums would help the cities of a large amount of expense, in the way of sanitary, police, and other services, because of the better situation there, would require less policing both from the health and the police standpoints, and that therefore for that reason the cities ought to make a contribution, because the governments of those cities were actually relieved of a burden.

That is the philosophy that has been adopted by the Housing Authority—isn't that true?

Mr. STRAUS. I think it is, sir.

Mr. FORD. What I am a little bit afraid of in connection with these amendments is that you are asking that the original 10 percent be waived, and that the contribution of the city, or of the local housing authority be confined to the remission of taxes and such other services as will be accepted in lieu of taxes. Isn't that correct?

Mr. STRAUS. That is absolutely correct.

Mr. FORD. Let us take a proposition of a million dollars. Presumably the local authority puts up \$100,000, or supplies the land——

Mr. STRAUS. Are you referring to the existing statute, or to the amendments?

Mr. FORD. I am referring to the existing statute.

Mr. STRAUS. Go ahead.

Mr. FORD. We all know that that \$100,000 property that the Authority buys would probably not sell in the market for much more than \$50,000. We all know, for instance——

Mr. STRAUS. May I interrupt you?

I do not know on what plea you believe I would accept a piece of property which the community claimed was worth \$100,000 if it was only worth \$99,000, we will say. My appraisers could find that out.

Mr. FORD. How would they find it out, if the local authority buys a piece of property?

Mr. STRAUS. Every purchase is reviewed by our land division, and checked item by item.

Mr. FORD. But they submit to you that they pay \$100,000.

Mr. STRAUS. Recently, or a long time ago?

Mr. FORD. Right now.

Mr. STRAUS. If they paid \$100,000, it must be worth \$100,000, and if they paid too much, on account of the fact that it did not have that value——

Mr. REILLY (interposing). In other words, you approve the purchase price?

Mr. STRAUS. Yes, sir.

Mr. REILLY. And you will not put any building up if they paid an outrageous price for the land?

Mr. STRAUS. We won't approve the purchase of any land, unless we think that the price is fair and reasonable, and unless I am convinced it is so, I will hold it up. I am holding up a few now.

Mr. FORD. That is what I am trying to find out, if that policy exists, and if that has not been equally true heretofore.

Mr. STRAUS. I know nothing about what went on before. I have no reason to believe that there was any other policy, but I do know that we have a land division that is as scrupulous as it can be in seeing that there are 100 cents of value on every piece of property bought, and we would not permit land to be bought on any other basis.

Mr. WILLIAMS. What relation would the land value bear to the finished project, as a rule?

Mr. STRAUS. That depends. If in the slums it amounts to about twice as great a proportion of the finished project as it does if the project is on vacant land, where the land is a relatively small factor.

Mr. FORD. I am trying to develop a complete thought.

Mr. STRAUS. I beg your pardon. It was my fault.

Mr. FORD. Then we will say that that is the case, that you take over a piece of property that is submitted to you, on which a building is to go.

Mr. STRAUS. Yes, sir.

Mr. FORD. My thought is this, that no amount of tax remission or exemption should be allowed in excess of the actual taxes that the property was paying at the time it was purchased, as part of this payment, because I do not believe that where the Government is putting up 3½ percent of the total to be paid over the 50 or 60 years, and since

that 3½ percent will practically pay the amortization of the interest on it, that you ought to allow them any tax remission on taxes that would accumulate after the building has been constructed.

That is my view.

Mr. REILLY. In other words, the only contribution of the municipality that should be considered is what the municipality got out of that land before the project.

Mr. FORD. Exactly.

Mr. WILLIAMS. That is the reason that I asked for the relative value of it.

Mr. STRAUS. The only comment I can make on that is that if that is taken as the measure of the local contribution, you are either going to have to provide higher Federal subsidies, or you are going to have to completely revise your act, or, as a last possibility, you won't rehouse slum dwellers.

I am not in any way discussing the theory of whether you are wrong or right. Personally I do not wholly agree with that theory. I think that when the municipality is furnishing school service, road service, fire protection, police protection for a project housing 5,000 people, for which it otherwise would collect taxes, if it remits those taxes it certainly is a contribution.

But let us disregard that completely, and assume——

Mr. FORD. It has been supplying all of those beforehand.

Mr. STRAUS. I beg your pardon. That is exactly the point. It has been supplying those services beforehand, you say. That statement is correct if you insert the word "not." It was not supplying those services beforehand, because in that locality where you are building the project you are housing a certain number of adults and children, and the municipality has not been supplying those services for those people beforehand. That is the whole theory——

Mr. WILLIAMS. Do you mean to say that the municipalities have not been furnishing streets and schools to the people within their borders?

Mr. STRAUS. They have not been furnishing streets, schools, and fire protection that obviously goes with these projects, unless the project is one that happens to be built for an equal number of people or an equal number of children.

Mr. WILLIAMS. It is your theory that the Federal Government should render those public services to the locality, is it?

Mr. STRAUS. No, sir; just the opposite; that the locality should render tax services free to those projects as its contribution. That is all.

Mr. WILLIAMS. I come back to my question, and will you answer it? What is the relative, proportionate value of the land as compared to the value of the finished project?

Mr. STRAUS. Mr. Keyserling, have you any statistical information as to the relative cost of the land?

Wait a minute; I have it here.

Mr. PATMAN. May I suggest that you consider this, that in some States there are certain exemptions of, say, \$3,000 or \$5,000, on the homes and on the apartments owned by the occupant?

So that in cases where they have tax exemptions, the city could not claim that is a contribution, because it is tax exempt to a certain limit.

Mr. STRAUS. I can answer the question that you asked. I have

several illustrations of that here. The most interesting one is the city of Charleston, S. C., where they have a slum-land project and a project built on vacant land. In the case of the slum project, the value per dwelling unit of the land is \$1,375; that is per dwelling unit, for the land.

Mr. KOPPLEMANN. When you say per dwelling, you mean——

Mr. STRAUS (interposing). Per family, \$1,375.

In that same city, not many blocks away, is a project on vacant land, and the cost of the land per dwelling unit is \$261.

Now, gentlemen, that is why it is often wiser to build on vacant land than it is to rebuild in the slums—not always, but it is often wise to consider it, because the total burden, the cost to the Federal Government, is less, and because you are able to rehouse the people just as well at a much lower figure.

Mr. KOPPLEMANN. Then, of course, what do you do in connection with the statement often raised that if you do not eliminate a dwelling, you have no right to put one up, because of the competition with those who own property and who rent it?

Mr. STRAUS. The answer to that is that you have a wise provision in your act, and which so far as I know we are meticulously observing, that where a project is built on land which is vacant or partly vacant, we must have assurances in the form of an ironclad contract with the municipality that for every new building erected, a slum dwelling unit will be demolished or closed up.

Mr. LUCE. Was that observed in South Boston?

Mr. STRAUS. We have never had a project in Boston. There is no legislation which would enable us to have a project in Massachusetts.

Mr. LUCE. They have been fiddling over a project in South Boston for some years, and that was also to clear out the slums, but they took vacant land instead.

Mr. STRAUS. That was a P. W. A. project built under the Secretary of the Interior, under the old P. W. A. statute. I had nothing to do with it, and I think it was a wise provision of Congress, largely due to this committee, that as a result of the various things learned by experience, and we all learn by experience, we should do certain things. The statute of which I am administrator provides that there must be provision for elimination of a number of slum dwelling units equivalent in each instance to the number of new dwellings erected; and I want to repeat, and I hope you will pardon me for doing so, that we have scrupulously and meticulously observed that provision of the statute, and that provision for equivalent demolition, as we call it and as you called it in the act is inserted in every loan contract that we make.

Mr. GIFFORD. I assume that you have inherited that project, have you not?

Mr. STRAUS. I cannot hear you.

Mr. GIFFORD. Are you not being sued by the people who abandoned land that was supposed to have been taken, because they did not build that project on that land?

Mr. STRAUS. I do not want to plead ignorance, but I do not know what suit or community you are talking about.

Mr. GIFFORD. South Boston.

Mr. STRAUS. I do not know of any suit in South Boston, but I would not want to testify formally here that there is no such suit. I am operating today in 48 States, and I do not know every single one of t many suits, nor carry them in my head.

Mr. GIFFORD. Was it not assumed in that case that that property would be demolished, and the people moved off, and they are now suing you and recovering, because they abandoned that property?

Mr. STRAUS. Mr. Congressman, I would like to answer you just as plainly as I know how, and I came today armed with a lot of things on various subjects. I did not come armed with information as to the suits respecting each one of the 51 Federal P. W. A. projects which I inherited and which I am endeavoring to manage. Maybe our counsel can tell me. Give me a minute.

Counsel says, and he carries most of these things in his head, that he believes there was such a suit instituted before the United States Housing Authority came into existence. He does not know whether it has been actually abandoned, or whether it has been settled, but it has no relation, directly or indirectly, with the program or the amendments we are discussing here this morning.

Mr. GIFFORD. It seems to me that we did not need to have an experience of that kind in order to bring about the meticulous performance that you refer to at the present time. That ought to have been foreseen, and what was done there was unnecessary and it should not have been. The people there abandoned their homes, and now we are paying for the suits.

Mr. REILLY. I want to ask you this question. You say that you have followed the demolition idea.

Mr. STRAUS. May I answer that?

Mr. REILLY. Our understanding is, and it was testified before the committee last year, that many of these slum dwellings or dwelling units have several families. Then how can you demolish, or how can you take care of those people by only building a relative number of units?

Mr. STRAUS. May I answer your question secondly?

The question raised over here was whether, under the old P. W. A. statute, the law had been observed in regard to an equivalent demolition of slum units. May I call your attention to the fact that there was no such provision in the old P. W. A. law?

Now, as to the other point that has been raised, that is merely a question of my not making myself clear. You say that if we demolished a building in which four families are living, and we erect one in which only one family is living, how do we take care of the balance of the families?

Mr. REILLY. Yes.

Mr. STRAUS. The law as I interpret it does not refer at all to buildings. It refers to families, or, as we use the term, dwelling units. If a building is demolished with four dwelling units, a slum building, then we are permitted to erect four new units, and that is the plan on which we are proceeding. Whether one family lives in a dwelling, or 40 families, a dwelling unit is a family unit.

Mr. GIFFORD. The people who are deprived——

Mr. STRAUS. I am awfully sorry, but I cannot hear you.

Mr. GIFFORD. I speak very loud.

Mr. McKEOUGH. I cannot hear you.

Mr. KOPPLEMANN. I cannot hear you over here.

Mr. GIFFORD. When you demolish a building, you cannot in all cases make provisions for those particular people who are deprived of their homes, under your rules and regulations?

Mr. STRAUS. I think that we must rehouse slum dwellers in them.

Mr. GIFFORD. Do they not have to pass a strict examination, that they are capable of paying the amount of rent asked for in the new dwelling?

Mr. STRAUS. You mean if the families were on relief? That is quite correct.

Mr. GIFFORD. If you demolished the building, you would put the people out of a home.

Mr. STRAUS. I do not know——

Mr. GIFFORD. Can you take care of the same people in the new construction?

Mr. STRAUS. Congressman, I am glad to answer that question. We never put people out of anything that I would accept as a definition of an American home, and we do not intend to.

Mr. GIFFORD. I do not think that you are answering my question.

Mr. STRAUS. It is the best answer that I can give you.

Mr. GIFFORD. Do you not have rules and regulations that the people who were occupying those homes have to give assurance that they will be able to pay the rent?

Mr. STRAUS. Right.

Mr. GIFFORD. And you depend upon relief to help them pay that rent?

Mr. STRAUS. We do not.

Mr. GIFFORD. Then how can you provide for all of the families that are dispossessed by the demolition of the building?

Mr. STRAUS. Congressman, that is a perfectly reasonable question. How are we going to take care of the people living on relief in the slums of America with a figure today of \$500,000,000, about sufficient to rehouse 100,000 families? There are 3,000,000 families in this country, gentlemen, today living in such circumstances——

Mr. GIFFORD. That is a general answer.

Mr. STRAUS. It is the best answer that I can give as one of the oldest students of housing in this country.

Mr. KOPPLEMANN. I think that the witness ought to be permitted to answer in his own way.

Mr. STRAUS. I do not know of any other answer, as a student of housing for a great many years. We will not do the rehousing that is necessary in America with \$500,000,000. We will try to give a demonstration of what can be done to rehouse self-respecting American families with annual incomes of \$600 to \$1,000 a year and who are now compelled to live in loathsome slums and indecent homes. We are not solving the problem of relief in America, much less the problem of rehousing all of them.

Mr. GIFFORD. I understand that, and if I have to speak out loud, it is not because I am impatient, but when you demolish four dwelling units, it follows that those particular four families ought to be provided for in the new units, and you cannot do that now?

Mr. STRAUS. No, sir.

Mr. REILLY. Certainly they can do it if they erect four new units.

Mr. STRAUS. It means that if they are on relief we will not take them.

Mr. CRAWFORD. Isn't this true, that the act which this committee approved and passed provided that for each housing unit you built, there must be one demolished in the slums?

Mr. STRAUS. Yes, sir.

Mr. CRAWFORD. But it did not provide the situation around the other way—in other words, if there is a slum clearance here that dispossesses 100 families, you are not obligated to build 100 units, are you?

Mr. STRAUS. No. That is correct.

Mr. CRAWFORD. In other words, you put in your contract that for each new one you do build, they must demolish an old one?

Mr. STRAUS. That is correct.

Mr. CRAWFORD. I think that there is an entirely different picture here, and, as you say, in your contracts you are providing that they must demolish one unit for every unit you build, but that is not intended at all to provide for the 100 families that might be dispossessed, where they live four or five families in one home, through the destruction of buildings in slum clearance.

Mr. STRAUS. It is not specifically provided in the act, although, in general, the difficulty is rather on the other foot. There is no difficulty in doing the building. Sometimes you have some argument as to the ability of the municipality to achieve the equivalent demolition, to take as many down. You see, living with this act, as we do, day after day, we see it so differently than we do in a discussion of this kind; we see these municipalities, with the pitiful overcrowding in these slum districts, clamoring for places for people to go. They do not worry, like the Congressman over here, as to whether that one particular family is going to be in one particular unit. They see these human beings in crowded buildings, 30, 40, and 80 years old, without light, without air, not in compliance with existing statutes, but they are not closed up. Why? In New York, Chicago, Boston, Detroit, any city that you want to name, they are not closed up because there is no place for those people to go, and those are the conditions today in most of the cities in this country.

Mr. GIFFORD. My anxiety—

Mr. STRAUS. I am sorry, but I cannot hear you, Congressman.

Mr. GIFFORD. Well, never mind.

Mr. REILLY. Proceed, Mr. Straus.

Mr. STRAUS. So far as the points that I want to cover are concerned, I have covered most of them, but I have two more that I would like to emphasize.

One is in response to the question, or the criticism made the other day very courteously by some of you gentlemen, but, nevertheless, I could sense the atmosphere, as to why we have not gone faster, and I was sort of canvassing my mind on that over the week end.

Now, most of these local authorities are pretty new, are pretty inexperienced. They have been working with us, coming here, and we have been sending out people, going over the plans, going over the specifications, with a view to cutting down costs—

Mr. PATMAN. What do you mean by cost?

Mr. STRAUS. The cost of construction.

Mr. PATMAN. Not the cost of administration?

Mr. STRAUS. Well, that plays, of course, directly into the cost of administration, because sometimes it is cheaper to put up a little better kind of construction, if you can do it within the terms of the act, so that you may keep down administration and maintenance, and that is exactly the thing that those people ask, that we must plan and counterplan for. We are constantly working to find out what the minimum that can be done is.

You gentlemen know that in this country our standards are much higher than abroad. One of the reasons why the housing programs abroad have done so much is because they ask much less. I have inspected a good many of those projects in Sweden, Holland, Germany, England, and one in Scotland, and they ask much less than we do. The rooms are smaller, and the service required is less. But we have been trying to adapt American ideas of what is a minimum in the matter of light, sunshine, hot running water, and we have done some pretty drastic things. We have set as the smallest living room that we will allow in one of these projects not 250 feet or 300 feet, but after an immense amount of argument, these have been set, and that is the limit in the first five projects—the minimum we will allow is 15 by 10, or 150 square feet, a very small room for a living room, but if you want to get within the cost, you have to do it. The average on the first four projects is 169 square feet.

Mr. McKEOUGH. For what sized family?

Mr. STRAUS. That is the minimum that we allow for any family. On the contrary, if the projects are for larger families, the tendency is to have them bigger, but we won't have them below those requirements.

Mr. PATMAN. Define "family." A family may consist of one person.

Mr. STRAUS. No, sir.

Mr. PATMAN. What is your definition of the word "family?"

Mr. STRAUS. I would like to go to Webster on that. I thought a family consists of at least two people. But you have an administrator who is wise in many things, but he would not attempt to substitute himself for a dictionary. I do not think one person is a family.

Mr. PATMAN. One person can keep a homestead in some States.

Mr. STRAUS. I do not know. We have not rehoused any family consisting of one person. Does the Congressman think we should have that in the statute?

Mr. PATMAN. I am not insisting on it. I am asking for information.

Mr. STRAUS. I think the Congressman knows better than I do as to that.

On our main bedroom, we allowed them to get down to 120 square feet, and the average is 126 on the first few projects. On secondary bedrooms, we allowed them to get down to 96 square feet in our existing project, and we will allow them to go down to 90. On third bedrooms, we allow them to go down to 85 square feet. To emphasize how close we are cutting there, that is less than the New York City law would allow, but we believe it is sound, so that people who live in these projects financed with the national subsidy and the local subsidy should have the minimum of human decencies, but should not be rehoused in a manner with all of the conveniences and all of the extravagances of people who are rehoused without a subsidy.

I am a firm believer in that principle.

Mr. CRAWFORD. May I ask you a question there?

In other words, that 8-by-10½ room will accommodate, with some decency, a double-sized bed, small table, dresser, and chifforobe?

Mr. STRAUS. Yes.

Mr. McKEOUGH. How do you get into a bedroom of that kind? With a shoehorn?

Mr. STRAUS. Wait a minute. You may think that that is funny. Some of our technical staff are working on just that kind of thing, and now they are erecting a compo-board model, so that the Administrator himself can be convinced on that. That sounds like a funny question, but it is not.

Mr. CRAWFORD. If you made those rooms any larger than that, and built on downtown property, where the slums are really located, and where the fellow is close to his work, you would certainly not be able to keep within the cost limits that we have set.

Mr. STRAUS. No.

Mr. CRAWFORD. In other words, you have built as small a room as cost will permit you to build?

Mr. STRAUS. That is correct.

Mr. CRAWFORD. And at the same time based on the actual experience of living.

I happen to be one of those that is not accustomed to a 20 by 40 bedroom myself, but, based on actual living conditions, I know that you can do pretty well in a bedroom 8 by 10½, or 8 by 12, or 10 by 12.

Mr. STRAUS. That is correct.

Mr. CRAWFORD. You have demonstrated it, have you not?

Mr. STRAUS. We are working on that theory, and I hope that I will come back next year and tell you that I have demonstrated it.

Mr. CRAWFORD. I think that the size you have outlined here is amply large.

Mr. STRAUS. You do?

Mr. CRAWFORD. For these families; and I do not think that they are any too large.

Mr. STRAUS. All right.

Mr. FORD. You made some comment upon what they are doing in England. Am I correct when I say that Britain inaugurated her program about 20 years ago?

Mr. STRAUS. I can tell you exactly. The war was over in 1918, and that is when they began.

Mr. FORD. What is the town where Lady Godiva is supposed to have ridden?

Mr. STRAUS. She rode through Coventry. But I was not there. [Laughter.]

Mr. FORD. I looked at their housing project there in 1927, and looked it over carefully. Of course, if we built like they build, we could do it in this country for about \$2,220 a unit; that would be our cost here, comparable to what they did there. They have about solved half of their slum problem, or maybe 40 percent, in that period, so that I am not expecting that we are going to solve our slum problem in 6 months or 6 years. If we do it in 20 or 30 years, that will be more like it.

Of course, over there they do not have the rigid municipal and State regulations on health that we have here. Their houses are comfortable, but they are not comparable in any way to what we build in this country, so that our program will cost relatively twice as much as theirs will.

Of course, I am in sympathy with the slum-clearance program, carried out over a reasonable number of years, but we cannot do it in 6 months or 6 years, or in 10 years, and I think that the provision of law that says that you must demolish for every unit that is built is

wise. I always have thought that, not because of the angle that comes into the question from a real estate point of view, but because we want to get rid of a bad situation.

But the original bill did not call for any contribution by the local authorities, did it?

Mr. STRAUS. No, sir, it did not.

Mr. FORD. For that reason I would oppose it, and I am still inclined to oppose leaving off the original contribution. That is a frank statement of how I feel about it.

Mr. STRAUS. Of course, the present bill does not require a contribution like that. It requires merely that part of the funds shall be raised as a local loan, distinguished from the bulk of the funds, which are raised by Federal loan.

Mr. FORD. Nevertheless, it is a local contribution.

Mr. STRAUS. Excuse me. Even there I do not want to fence with words with you, but actually, as I tried to explain to the committee the first day, you could go to a group of bankers without any local intervention and get this 10 percent of the bonds underwritten and sold, if I were willing to give the bankers in regard to those bonds certain preferences, which I am not willing to give them, and therefore the alleged removal of an obligation on the localities, of enabling us to loan exactly 100 percent, is not really relieving the localities of anything substantial.

I like to look at the thing in this phase: I like to compel the localities to put up what they can in the way of local tax exemption, which I regard as best of all available methods today, not the ideal one, for local contribution, and to insist upon that to the utmost, but not to dwell too much on the importance of allowing us to loan only 90 percent in the belief that the raising of the other 10 percent places any burden on anybody, other than it is a little cumbersome and is to a certain extent slowing up the program.

Mr. KOPPLEMANN. Decidedly so.

Mr. FORD. I do not know that it will.

Mr. STRAUS. That is for you gentlemen. I just want to answer questions. I do not want to attempt to influence your judgment.

Mr. KOPPLEMANN. Mr. Straus, there is some question in the minds of some people, and for the purpose of the record I wish you would devote a minute or two to defining what kind of families are eligible for these low-cost tenancies, having in mind the people who are economically situated so that they cannot afford to rent the places that are available as furnished from private owners.

Mr. STRAUS. Congressman, I am very glad that you asked that, because it has been neglect on our part not to bring it up.

Under the terms of the act, occupants of these new buildings which are erected are limited to families whose incomes are not more than five times the amount of the rental, except in exceptional cases of large families, which are defined in the act, where the income may be six times the annual rental.

Now, that is a specific provision of the act, which limits it roughly to families having incomes between \$600 and perhaps \$1,000 a year. Maybe in some of the big cities you might go up to \$1,200, but not over that.

Mr. REILLY. Would that include the Government subsidy also?

Mr. STRAUS. That takes into consideration the present plan of Government and local subsidies. If you did not have the subsidies, the rentals would take care of families having incomes between \$1,800 and \$3,000 a year, and that is why you have not got more private building in this country; that is the nub of the whole problem, that 80 percent of the American urban families pay less than \$30 a month rent, and 80 percent of the new building is for families who pay more than \$30 a month rent.

You can have pages and pages of discussion on the housing problem, but that is the whole thing in a nut shell, and that is what these requirements will be if any change is made in the subsidy provisions.

Mr. PATMAN. As I understand this proposed bill, it is a part of the Administration's policy to speed spending, or the speeding of the spending policy, I guess you would call it, and I am in accord with it. I think that the lowering of the reserve requirements of the banks, desterilization of gold, and this housing program will stop this depression; I believe it will.

Now, I would like to ask the witness if in his opinion these amendments are absolutely necessary in order to expedite this program and put this money in circulation at the earliest possible time.

Mr. STRAUS. The amendments are not necessary in order to enable the United States Housing Authority to do its job of rehousing a certain number of slum dwellers over the next 5 years in accord with the intent and the wording of the act. The amendments are necessary—they are absolutely necessary if any substantial amount of that construction is to get under way in this calendar year.

Mr. PATMAN. In other words, this is a speeding of the program?

Mr. STRAUS. Yes, sir.

Mr. PATMAN. And to force money into the channels of trade and distribution at the earliest possible date?

Mr. STRAUS. Yes, sir; exactly.

Mr. PATMAN. Understanding it that way, I am in hearty accord with the amendments, and I hope that the bill will be favorably reported.

Mr. STRAUS. Thank you, sir.

Mr. REILLY. Mr. Meeks has a question.

Mr. MEEKS. Mr. Straus, the last day you were here, we had a little discussion about conditions in Illinois, as you recall.

Mr. STRAUS. Yes, sir; I do.

Mr. MEEKS. That afternoon I had a talk with Governor Horner of Illinois on the telephone, in which we discussed the situation, and he informed me that he believed that the problems that we had could be worked out and were in a fair way of being solved. He followed that up with this telegram, which I will read for the record and your information:

SPRINGFIELD, ILL., April 28, 1938.

Hon. JAMES A. MEEKS,

House of Representatives, Washington, D. C.:

The President of the United States, the United States Housing Authority, and I have endeavored for some time by personal discussion and correspondence to find a way for our local housing authorities to qualify for Federal aid for public low rental housing projects within our State constitutional limitations. I am now informed that the necessary legislation has been agreed upon, acceptable to the United States Housing Authority. Although I have not had an opportunity to study its provisions, in the call for a special session, which probably will be

convened shortly, I intend to include this subject, and it is my hope that we can enact constitutional legislation which will permit our communities to receive Federal aid for this purpose.

That is signed by Henry Horner, Governor.

Now, is that in accord with your understanding?

Mr. STRAUS. It is in accordance with my understanding as late as this morning, when counsel who is sitting next to me told me of a telephone conversation which indicates that a means has been found to bring Illinois into line with her sister States by means of the enactment of a simple statute and without constitutional amendment.

Gentlemen, before you go, may I have a minute at this map?

Mr. KOPPLEMANN. May I ask you one single question? Under this amendment, with your knowledge of the situation in my State of Connecticut, will we be able to facilitate our efforts in Connecticut for these low-cost houses?

Mr. STRAUS. I think it will help you; yes.

Mr. MEEKS. The Governor informed me by telephone that he expects to call a special session during this month of May.

Mr. STRAUS. That is swell.

Gentlemen, what I would like to point out, if you can see this chart, is that it shows you our trend. (Exhibit V.)

I took office on November 1. These are the months [indicating], and these are the amounts [indicating]. The first actual earmarking was made December 10. Then we got to there [indicating on map], and then we get to a flat line, because we did not have the official approval of the Attorney General that we were allowed to earmark our last 200 millions. Up to that time we had done it only on the first 300 millions, and unless you gentlemen put through this amendment, we cannot touch that money until a year from next July.

Here [indicating on chart] we began to earmark out of the final 200 millions, and this line [indicating] is going straight up. On the other hand, loan contracts began later, and the first loan contract we actually executed was in the middle of March. There is another batch referred to here, 55 millions. Then there was a batch in the middle of April for 52 millions. The May batch will be in excess of 50 million dollars. I hope it will be nearer in excess of 60 millions. Then the June batch will be about another 50 million, but unless we get these amendments, when we get to this point [indicating on chart], we will have to flatten out. If we only make contracts for the first 300 million dollars, you will get only about 125 million dollars into circulation in this calendar year. That is why we want the amendment.

The next thing, gentlemen, is here [indicating a map showing status of housing activities under United States Housing Authority program, including existing legislation, housing authorities, earmarkings, and loan contracts]. (Exhibit VI.)

Excuse the American flag [an American flag was used on the map to designate the housing authorities which had obtained loan and annual contributions contracts]. We could not get any other kind of a flag to differentiate the projects.

Mr. McKEOUGH. Would you use any other?

Mr. STRAUS. We would like to have plain- and blue- and yellow-colored flags instead of these pins. We are not trying to pin any American flags on the Authority—not that it does not deserve it.

The States with proper housing legislation are put in striped lines. The States with inadequate housing legislation, but with some legislation, have striped lines around the edges.

Mr. PATMAN. I wonder if we can have this map placed in the record.

Mr. STRAUS. Would you mind my talking about it for a minute?

Mr. PATMAN. No; but I want it placed in the record, too.

Mr. STRAUS. Can you get a colored thing like that in the record?

Mr. PATMAN. Yes.

Mr. STRAUS. Thank you, sir. The third thing is States that have no housing legislation. They are plain without any stripes. It is not too bad a picture for a short time, I think.

Then we have the cities that have local housing authorities, but nevertheless have no projects or earmarkings. They are represented by a black dot. Then we have the cities with housing authorities which have received earmarkings. These are represented by a black dot with a circle around it. Finally we have the cities with housing authorities which have received loan and annual contributions contracts. These are represented by a black dot with two circles around it.

Then there are the cities that have earmarkings, and the earmarking is not a gesture, as some people seem to think. An earmarking is a determination on our part, and the community's part, to make a contract as soon as we can get the details straightened out. So far it has been over 2 months between earmarkings and contracts, and I think I can promise you that our machinery is getting straightened out, and it will be nearer 2 weeks.

Mr. TRANSUE. When do you think you will put pins on Michigan and Illinois to show actual contracts?

Mr. STRAUS. Illinois you have heard about. As to Michigan, if they will give us a statute that will enable us, that is, outside of Detroit, which has a splendid housing authority and I think will be in the next batch for a large loan—I say, as soon as we get that enabling legislation in Michigan, outside of Detroit, we will be ready to go ahead.

The last thing here consists of the cities that have actual housing contracts.

With reference to the distribution of cities that have earmarkings, and the cities that have contracts, I have been asked by different people in the last few days whether most of the money was not going to the big cities, and didn't that map prove it. I said no, that I did not think so. Two hours later, another man asked me whether that map did not prove that all of the money was going to the small cities. I said no. Another man, who was from the North, said that all the money was going into the South, and the last man, who is from the South, said that all the money was going to the North and West.

I think that the variety of those questions proves the contention that I made when I spoke to the President, that this program should be and is distributed geographically throughout the entire country. It is distributed as quickly as the local authorities show that they are ready to proceed, and they are being mighty cooperative, and might eager, and I may say that we are having a new sort of chamber of commerce. When I was a young man and used to travel around and meet with the chambers of commerce, they used to boast about their beauti-

ful parks, and their fine transportation facilities, their access to markets and the beauties of their cities. But now the chambers of commerce come to us and boast of their terrible slums, that their slums are worse than those of their neighbors.

Mr. PATMAN. Do you mean the United States Chamber of Commerce?

Mr. STRAUS. I do not know, but these localities will tell you that.

Then the distribution is among new cities and old cities, large cities and small cities, among cities having a population of from 6½ millions down to 18,000, and the thing is geographically well concentrated in the East for the time being, but gradually going toward the West. We have had two projects started here [indicating Austin, Tex., and New Orleans, La., on map] within the last few weeks.

So that I believe that we are ready to go ahead, and if we go ahead with the enlarged powers and the additional moneys, which are not very great, you are going to see a real beginning made of rehousing of the people of America.

Let me close, outside of answering any questions that may be asked, by saying that I do not for a minute think that all of our problems of rehousing are going to be solved by this, but I do believe, as the Congressman here said, referring to the foreign experience, that we are going to make a dent in rehousing American families receiving incomes that perhaps you and I, when we were young men, thought were decent incomes, but which today may buy the clothing and food, but are not sufficient to buy rehousing, and it will give them homes. By that I mean that, with this new legislation, we will provide for 200,000 of those families with incomes of from \$600 to \$1,000 a year.

Mr. GIFFORD. Of the \$230,000,000 loan contracts out, New York City has \$30,000,000.

Mr. STRAUS. Yes.

Mr. GIFFORD. Do you wonder that people are asking questions about the distribution?

Mr. STRAUS. Yes, sir; I do wonder. There is no way in which New York has any more, except that it was prepared to go ahead with a program. We are restricted by our statute to \$50,000,000 to any one State that has qualified for it up to 10 percent of the total, and we are proceeding that way. Actually, New York City has, on a per capita basis, one of the smallest of any of the contracts made.

Mr. LUCE. Preliminary to some questions that I want to ask you, I want to read into the record certain figures from a statement that you have given to us as to the earmarkings.

You have earmarked for Orlando, Fla., a city by the 1930 census of 27,330 population, \$450,000. In the same State, there is Pensacola, a city of 31,519 population, and you have allotted \$900,000. To St. Petersburg, a winter resort with 40,425 population, you have allotted \$900,000.

To Kokomo, Ind., a city of 32,845, you have allotted \$600,000. To Vincennes, Ind., a city of 17,564, you have allotted \$270,000.

To Frankfort, Ky., a city of 11,666, you have allotted \$450,000. To Billings, Mont., a city of 16,380, you have allotted \$270,000. To Warren, Ohio, a city of 41,462, you have allotted \$1,000,000.

To Johnson City, Tenn., a city of 15,080, you have allotted \$300,000. To Temple, Tex., a place of 15,345 population, you have allotted

\$180,000, and to Morgantown, W. Va., a city of 16,186, you have allotted \$270,000.

When we considered this bill, we considered this as a slum-clearance project, and of "slums" the common interpretation is "the blighted areas in the large cities." There never was before this committee, in my recollection, any idea of financing homes in places of from 11,000 to 40,000 population.

I have had the curiosity, sir, to make inquiry as to one of these places, to ascertain the needs relating thereto, and that is Johnson City, Tenn. I made this inquiry of a man who knows the place thoroughly. You have allotted \$300,000 there, and he tells me that there is no occasion for any clean-up of a blighted area there, that it is not wanted, that it will result in the lowering of the value of other property, and, in short, that it presents no justification for any governmental financing.

Each one of these cities is a small city, where there is, I am sure, plenty of vacant land within 1 or 2 miles of the center of the city. I live in the city of Waltham, Mass., of 40,000 inhabitants or thereabouts. Of their own accord, people there of the rank and file, whom you are trying to help, have themselves gone out individually a mile and a half from the center of the town and built, I suppose, from 50 to 100 cottages at an average cost, my guess is, of not more than \$3,000. Those men have gone out there, and they have light and air and the opportunity for gardens, opportunity for small lawns and fruit trees, for everything that we call a home.

You are proposing to erect barracks in these small cities, contrary to the original intention of this committee and of Congress, I am very sure. Will you justify it?

Mr. STRAUS. Mr. Chairman, I am very glad that those various points were raised, because I would like to answer each one of them.

The first contention, as I understand it, is that we have made earmarkings for small cities which in turn will lead to loan contracts for those cities. I think that that can be answered, in the first place, by pointing out that that criticism is precisely contradictory to the criticism made by the other gentleman sitting next to him, that we have given——

Mr. LUCE. I am talking merely about my own criticism, and I am asking you to answer me. I want to know why in Johnson City you are going to allot \$300,000.

Mr. STRAUS. The only way you can know is if you will be good enough to let me answer you, and I will try to do it as thoroughly and as honestly as I can.

I think that the criticism made by you, if I understood it correctly, is that we were making loans to small cities which did not need it, while your colleague to your left has just made the statement that we are making too much of the loans to the large cities.

Mr. LUCE. Now——

Mr. STRAUS. Let me finish, please.

Mr. PATMAN. I insist that the witness be allowed to proceed.

Mr. LUCE. I will raise the point of order, that in answering my question, he has no right to refer to the opinions of other members of the committee.

Mr. STRAUS. I did not know that.

Mr. PATMAN. I will take issue with you on that, Mr. Luce.

Mr. STRAUS. May I say this, that then I will withdraw that, if it is contrary to the rules. I have never been here before.

The difficulty that the Administrator has is that the representatives of the small cities are claiming that too much is going to the large cities, and the gentlemen from the large cities claim that the small cities are getting too much. The Administrator makes no pretense of being all-wise, and of not making any mistakes, but each one of these earmarkings is the result of hours and days of study as to the needs of the particular city.

The gentleman said, if I understood him correctly, that this bill was intended to care for the slums and the blighted areas in the large cities. It was not the understanding of myself that there was anything in the bill which limited its application to the slums and blighted areas in the large cities. On the contrary, I understood that by specific direction of the act we were to help every community in the United States that had slums and that come to us and ask to get rid of them.

Now, may I address myself to some of these cities specifically. Let us take Johnson City, Tenn. I know nothing about the informant of whom the gentleman spoke; obviously I cannot know who he is. I do know that the people of Johnson City, through their duly constituted local authority, through their mayor, and through their city council, have approached me as Administrator of the United States Housing Authority with a statement that they have slums and blighted areas, that they have a duly constituted local housing authority ready to go ahead and remove those slums if we will give them a loan, and before the loan contract is actually executed, which it has not yet been, I will assure myself, sir, of the existence of those slums, not by asking somebody whom I happen to meet, but by a detailed survey made in most cases with the assistance of the local chamber of commerce, with the assistance of the W. P. A., with the assistance of the figures supplied by the real property inventory. On the basis of those surveys I will endeavor to assure myself that the contention of the locality that they have slums that they want to eliminate is true, and if it is true, I intend to make the loan, whether it is a large city or a small one, whether it is in the North or in the South, or whether it is in the East or the West, until you gentlemen amend the act and tell me that I can only operate in the large cities.

And may I go a step further? I differ fundamentally with the gentleman that there are no slums in the smaller cities. I think that you will find some of the worst blighted areas in this country, the worst miseries, the worst indecencies of living, in the small cities, and as evidence of that fact I cite not a personal opinion, or the personal opinion of an individual, but the studies that have been made, with which the members of this committee are surely familiar, throughout this country, by various agencies over the last decade.

I thank you.

Mr. LUCE. But you have not answered my question why you are deviating, as I understand, from the English practice, and are certainly outraging my own idea of what should be done by building in small cities, where there is available plenty of adjacent empty land, barracks instead of cottages.

Mr. STRAUS. Now, that is another question. The question now that the Congressman has raised is why we are building barracks instead of cottages.

Outside of the two large cities where we are authorizing the erection—I would not say of barracks, but of apartment houses, every one of the projects for which we have made contracts is a project providing for small individual houses, or two-family houses. We are following the English practice just as closely as this student of the English practice for the last 8 years is able to follow it. He may be dumb, but he is trying hard to be guided by 8 years of practical detailed study of the housing problems in this country and abroad.

Mr. LUCE. Did I not see a picture of one of the buildings that had been built in a small southern city, which was a barracks?

Mr. STRAUS. No, Congressman; honestly I do not know what you may have seen. I am telling you, as solemnly as I know how, that we are building only small row houses or two-family houses everywhere except in a couple of the larger cities, where the local authorities have insisted that they want apartments. My whole planning and experience had convinced me of the merits of the row house. It is cheaper to maintain. It means less subsidy. The fellow does not need a central heating plant. He does not need somebody to clean his walks; he cleans them himself, and he cleans the snow and ice from in front of his place.

Of course, you are right about the row house.

Mr. SPENCE. How long will it be before some of these projects will be completed?

Mr. STRAUS. I do not think a project, sir, will be completed in much less than 18 months after we sign the contract.

Mr. SPENCE. Of course, we are all more or less interested in our own States, and I notice that you have Kentucky as one of the States that have enacted satisfactory legislation.

Mr. STRAUS. Yes, sir; I understand that Kentucky is all right.

Mr. SPENCE. The Constitution of Kentucky, and I am merely stating it from memory, provides that the only property that shall be exempt from taxation is purely public property, or used by the public or for governmental purposes, and manufacturing plants may be exempted from taxation for a period of 5 years by municipalities as an inducement to their location.

Now, there has been no amendment to the Constitution of Kentucky with regard to these projects that I know of, and I wanted to be sure that the legislation that was passed by the State of Kentucky is satisfactory.

Mr. STRAUS. I shall have to ask my counsel that.

Mr. KEYSERLING. My understanding is that the legislation of Kentucky has been specifically tested and upheld.

Mr. SPENCE. Has it been passed upon by the courts?

Mr. KEYSERLING. Yes.

Mr. STRAUS. When my counsel says that your statute has been tested and upheld, I think that you are on safe grounds, that you are O. K. He carries these things pretty accurately in his head.

Mr. SPENCE. If the Court of Appeals of Kentucky said so——

Mr. PATMAN (interposing). I want to ask him a question about the amount.

The President in his message recommended \$300,000,000 additional for housing. This asks for an increase of \$500,000,000. Why the difference?

Mr. STRAUS. That is one of the things that I wanted to get into the record.

This bill calls for \$500,000,000, and the discussion and the statement by the President talked of \$300,000,000, and I have checked this with others and undoubtedly you will hear more on this directly from the Members of both your own House and the upper House, so I do not want to be out of order again and quote somebody, but it is my understanding, and if you will read the President's message, his words show that understanding, that it was his desire to put to work immediately the number of people who could be put to work with an expenditure of \$300,000,000 additional.

Now, to spend \$300,000,000 we have to ask for at least \$500,000,000, and you have to speed up things pretty well to do that, because if a project takes 18 months to complete, and we will not get them all signed within the next 2 months, that expenditure of \$500,000,000, no matter now fast I work, won't be spent over a 2-year period, and that is why it was decided by a Member of your House and a Member of the upper House handling the situation that they would ask for an authorization for loans up to \$500,000,000, which would conform to the President's statement that he wanted to put \$300,000,000 into immediate circulation.

Mr. CRAWFORD. All of your remarks with reference to what you have built and what you intend to build must be limited to contracts that have been completed and are in process of completion? In other words, under your administration, or under the administration of this act, not one single building has yet been erected? Is that correct?

Mr. STRAUS. Yes, sir.

Mr. CRAWFORD. Therefore there can be no pictures of any buildings anywhere erected under this act, can there?

Mr. STRAUS. Excuse me; I did not want to say that. I thought of that answer, but I thought that might seem like quibbling. There have been photographs of architects' drawings, and the Congressman may have seen them.

Mr. CRAWFORD. I wanted to get that clear in my own mind.

Mr. STRAUS. You are absolutely right, but there have been pictures of architects' drawings, and I thought of raising that point, but I thought, as I said, that that would be considered as quibbling.

Mr. CRAWFORD. Going back to the statement raised by Congressman Patman with reference to this additional money being provided in the amendments, so that the spending program could be speeded up, and to the original intent of this act, and to your remarks with reference to the excess cost that always flows into the construction of big projects, if done hurriedly, is there any likelihood that, if these amendments are approved, and if you somewhat switch from the philosophy of this original bill to a philosophy to speedy spending, that you will be brought into a practice which leads to high-cost construction by reason of the speed that you are putting into it? Isn't there a lot of danger in that? Or let me say it this way—

Mr. STRAUS. I understand you, Congressman.

Mr. CRAWFORD. Personally, I think you have been moving along very wisely in trying to get these things solidly sewed up before you actually release the money, and I have drawn on past experience in building in making that statement. Now, if you give up that philosophy and that practice, with the idea that you are going to go out here

and get \$300,000,000 or \$500,000,000, through the Treasury Department, into the hands of the workers, so that they can spend it at some local store, I think you will run into high costs, and defeat the original purpose of this bill which was certainly enacted by Congress at a time when we were setting the brakes against spending, and had no idea we would run into the situation which now exists.

Mr. STRAUS. Your question will enable me to get something in the record that I wanted to get in it.

You asked the question whether, by changing the philosophy of the program, speeding it up, we are not going to destroy its principal purpose, of rehousing slum dwellers, and be put off on the trail to a hurried type that will be extravagant?

Mr. CRAWFORD. Yes, sir.

Mr. STRAUS. We spent, again, hours in discussing exactly that aspect of any possible amendment, and the outcome of those discussions is the embodiment in the act today of no amendment which changes that original philosophy. Specifically there is nothing in the act which permits Federal building, and the reason that I did not want that in the act was because I so fully agree with you that to change the philosophy of this act at this time, when we are just getting under way, with the idea of speeding up, would be unsound, even though it would enable me to make a little better show for a few months. Those amendments do not provide anything of that kind. They give much more money, and in view of the fact that we have 138 local authorities today, and will have 200 inside of a couple of months, I believe that we can spend wisely and soundly, or I would not have asked for it. Then there will be no hurrying up; there will be no Federal construction; there will be no lack of insisting that these local authorities do the job from the time they come to us of cleaning out their slums, through the acquisition of land, the putting up of the buildings, and managing the project.

I fully agree with the philosophy of the act, and I think you do, sir; and I do not want to do anything to have it changed, and these amendments do not change it. They give us additional money. That is the chief thing.

Then there are two minor provisions, one of which I have not touched on at all yet, because I have not had a chance, and that is that it makes the bonds which are issued by the Federal Government continue to have the same guarantees that they now have if or when they are sold into private hands.

The last amendment is an amendment going hand in glove with the additional loan contract, and that is an addition to the amount of subsidy funds.

I will answer you by saying that there is no change in the philosophy, and I do not believe there ought to be.

Mr. CRAWFORD. The amendments, then, broaden the base, that is, provide more money for slum clearance and housing, and enable you to make loans up to 100 percent? Is that correct?

Mr. STRAUS. Absolutely; a perfect summary.

Mr. CRAWFORD. And there is nothing needed which really enables you to speed up spending?

Mr. STRAUS. If I have more money, I can speed spending. Many cities now are being cut down below what they would like to have because we have not enough money, and that will become a lot worse

in 60 days from now. It is particularly true in the big Eastern States, Pennsylvania, Ohio, and New York, where we are only allowing them \$30,000,000 for the time being in each State.

Mr. WILLIAMS. Have you a blank contract available of the kind that you enter into with the housing authorities?

Mr. STRAUS. Surely. We have not this minute, but I can send it to you.

Mr. WILLIAMS. Have you one with you?

Mr. STRAUS. No.

Mr. KEYSERLING. We can send it to you today.

Mr. PATMAN. Suppose that we ask him to insert it in the record.

Mr. WILLIAMS. I want that contract. I would like to have you send me one.

Mr. STRAUS. Surely. I will be glad to, sir.

(The contract referred to above is as follows:)

EXHIBIT VII

LOAN CONTRACT BETWEEN CITY OF LOUISVILLE MUNICIPAL HOUSING COMMISSION AND THE UNITED STATES HOUSING AUTHORITY

1. Subject to the terms and conditions (United States Housing Authority form No. 300) which are made a part hereof, the United States Housing Authority (created under the United States Housing Act of 1937, Public, No. 412, 75th Cong., and hereinafter called the U. S. H. A.) hereby agrees to assist the City of Louisville Municipal Housing Commission (hereinafter called the local authority) in the development of a low-rent housing project in the city of Louisville, county of Jefferson, Commonwealth of Kentucky, consisting substantially of 814 dwelling units (hereinafter called the project), which is more fully described in the application filed with the U. S. H. A. as project No. KY-1-1, with such changes in the project as may be made from time to time with the approval of the U. S. H. A., by purchasing from the local authority, which hereby agrees to sell, obligations (hereinafter called bonds) at the principal amount thereof, plus accrued interest thereon, of the description set forth below (or such other description as shall be mutually satisfactory), in the aggregate principal amount of \$4,261,000, but not to exceed in any event 90 percent of the actual development cost of the project, as determined by the U. S. H. A.:

- (a) Obligor: City of Louisville Municipal Housing Commission.
- (b) Type: Negotiable, special obligation, serial, coupon bond.
- (c) Denomination: \$500 and \$1,000.
- (d) Date: July 1, 1938.
- (e) Interest rate and interest payment dates: 3 percent per annum payable semiannually on January 1 and July 1 in each year.
- (f) Designated place of payments: At the principal office of the bank or trust company referred to in 1 (b) hereof, or, at the option of the holder, at a bank or trust company in the borough of Manhattan, city and State of New York.
- (g) Registration privileges: Registerable, at the option of the holder, as to principal only or as to both principal and interest.
- (h) Total authorized amount of issue: \$5,144,000.

(i) Maturities to be purchased by U. S. H. A.: Payable on July 1 in years and amounts as follows:

Year	Amount	Author- ized ma- turity of—	Year	Amount	Author- ized ma- turity of—
1954.....	\$46,000	\$50,500	1977.....	\$90,500	\$100,000
1955.....	47,500	52,000	1978.....	93,500	103,000
1956.....	49,000	53,500	1979.....	96,000	106,000
1957.....	50,000	55,000	1980.....	99,000	109,000
1958.....	51,500	57,000	1981.....	102,000	112,500
1959.....	53,500	58,500	1982.....	105,000	115,500
1960.....	55,000	60,500	1983.....	108,000	119,000
1961.....	56,500	62,000	1984.....	111,500	122,500
1962.....	58,000	64,000	1985.....	115,000	126,500
1963.....	60,000	66,000	1986.....	118,500	130,000
1964.....	62,000	68,000	1987.....	122,000	134,000
1965.....	64,600	70,000	1988.....	125,500	138,000
1966.....	65,500	72,000	1989.....	129,500	142,500
1967.....	67,500	74,000	1990.....	133,000	146,500
1968.....	69,500	76,500	1991.....	137,000	151,000
1969.....	71,500	79,000	1992.....	141,500	155,500
1970.....	73,500	81,000	1993.....	145,500	160,000
1971.....	76,000	83,500	1994.....	150,000	165,000
1972.....	78,000	86,000	1995.....	154,500	170,000
1973.....	80,500	88,500	1996.....	159,000	175,000
1974.....	83,000	91,500	1997.....	164,000	180,000
1975.....	85,500	94,000	1998.....	169,000	185,500
1976.....	88,000	97,000			

(j) Redemption privileges: Redeemable in whole or in part at the option of the local authority on any interest payment date at a price per bond equal to the principal amount thereof plus accrued interest to the redemption date and a redemption premium of one-fourth of 1 percent of the principal amount for each year or fraction thereof from the redemption date to the stated maturity thereof, with a maximum redemption premium of 5 percent.

(k) Security: Payable as to both principal and interest from and secured by: (1) an exclusive first lien (which shall also secure any other obligation issued under the trust indenture referred to in paragraph 1 (1) to assist in the development of the project) upon and a pledge of the gross revenues derived from the project (including all additions to and extensions of the project thereafter developed or acquired) up to an amount sufficient to pay such principal and interest as the same become due, and (2) a pledge of any annual contributions to be made to the local authority by the U. S. H. A. under the annual contributions contract between the said parties of even date herewith (which pledge shall also secure any other obligations issued under said trust indenture and any obligations of the local authority held by the U. S. H. A., to the extent permitted by the annual contributions contract).

(l) Trust indenture: Bonds to be secured by an indenture (which indenture shall also secure all other obligations issued to assist the development of the project not in excess of the amount shown in paragraph 1 (h)) from the local authority to a bank or trust company selected by the local authority as trustee, which trustee and indenture shall be satisfactory to the U. S. H. A. and which indenture shall contain provisions as to the development, maintenance, operation, repair, title, and insurance of the project, the establishment of special funds and reserves, the fixing and the collection of rents, the pledge of the aforesaid annual contributions from the U. S. H. A. and of the revenues of the project, the furnishing of financial statements, the redemption of bonds, the events of default, the rights and remedies of bondholders thereunder, and such other matters as are customarily included in such instruments (except that the indenture shall not confer a power of foreclosure and shall prohibit the sale or other disposition of the project or any part thereof except such property as excess land or unnecessary equipment).

2. At any time after the execution of this agreement (whether before or after compliance with the conditions in paragraph 3 hereof), and upon a satisfactory showing that there is a need for such funds which cannot otherwise be met, the United States Housing Authority may, upon request of the Local Authority and for the purposes set forth in paragraph 1, part II of the terms and conditions, make an advance on account of the loan (hereinafter called the "loan") agreed upon in paragraph 1 hereof. Such advance on account of the loan shall not exceed 3 percent of the loan and may be made only upon the receipt of an evidence of indebtedness (in form and substance satisfactory to the United States Housing Authority), exchangeable for an equal principal amount of bonds when issued.

3. The United States Housing Authority shall be under no obligation to the local authority to take up and pay for any bonds:

(a) If the local authority shall not have filed with the United States Housing Authority, in form and substance satisfactory to the United States Housing Authority, plans and specifications for the project and a certificate or certificates of purposes on forms provided by the United States Housing Authority setting forth in detail the amounts and purposes of the expenditures which the local authority proposes to make in connection with the development of the project (including expenditures from proceeds of obligations sold to others than the United States Housing Authority and from other funds).

(b) If the United States Housing Authority shall not be satisfied that the cost of the project (excluding land, demolition and nondwelling facilities) will not exceed an average of \$4,000 per family dwelling unit and \$1,000 per room.

(c) If the local authority shall not have obtained or entered into contracts to obtain in a form and upon terms satisfactory to the United States Housing Authority assistance equivalent to at least \$520,150 toward meeting the development cost of the project from sources other than the United States Housing Authority.

(d) If the local authority shall not have obtained a contract under which the city of Louisville agrees to vacate and close the following streets and alleys: (i) Fehr Avenue between Hancock and Shelby Streets; (ii) Marshall Street between Jackson and Shelby Streets; and (iii) an alley (parallel to and between Jefferson Street and Fehr Avenue) between Hancock and Shelby Streets and for a distance of 131 feet more or less to the property line of the Catholic Church west of Hancock Street;

(e) If the local authority shall not have made arrangements which are satisfactory to the United States Housing Authority whereby the proposed large playground in the project will be maintained and operated by the city of Louisville;

(f) If the city of Louisville and the Louisville Railway Co. shall not have entered into a contract for the removal of the car tracks of Fehr Avenue, the date for such removal to be specified insofar as possible.

4. The local authority represents:

(a) That the project will be constructed on a site on which the number of unsafe or insanitary dwelling units is at least equal to the number of new dwelling units to be provided in the project, and that these unsafe or insanitary dwelling units in a number at least equal to such new dwelling units will be eliminated from the site of the project by demolition during the development of the project.

(b) That it has a legal and enforceable right under the Kentucky Constitution, statutes and decisions of the court of appeals, to full tax exemption of the project.

(c) That it has entered into a contract dated April 5, 1938, between it and the city of Louisville, pursuant to which the city of Louisville has agreed that during the useful life of the project (which shall in no event be less than the number of years during which any of the obligations issued to assist the development of the project shall remain outstanding) it will not levy any taxes, assessments, fees, or charges against the project or against the local authority for or with respect to the project.

In witness whereof, this loan contract has been duly executed as of _____, 19—.

CITY OF LOUISVILLE MUNICIPAL HOUSING COMMISSION,

[SEAL] By _____, *Chairman*.
Attest:

_____,
Secretary-Treasurer.

This contract having been approved by the President of the United States, the United States Housing Authority has caused it to be duly executed on its behalf.

UNITED STATES HOUSING AUTHORITY,

[SEAL] By _____, *Administrator*.
Attest:

_____,
Executive Officer.

ANNUAL CONTRIBUTIONS CONTRACT BETWEEN CITY OF LOUISVILLE MUNICIPAL HOUSING COMMISSION AND THE UNITED STATES HOUSING AUTHORITY

Whereas the City of Louisville Municipal Housing Commission (hereinafter called the local authority) is undertaking the development of a low-rent housing project in the city of Louisville, county of Jefferson, Commonwealth of Kentucky, consisting substantially of 814 dwelling units (hereinafter called the project), which is more fully described in the application filed with the United States Housing Authority (created under the United States Housing Act of 1937, Public, No. 412, Seventy-Fifth Congress and hereinafter called the United States Housing Authority) as project No. KY-1-1, with such changes in the project as may be made from time to time with the approval of the United States Housing Authority; and

Whereas, in order to assist the development of the project, the local authority has determined to authorize the issuance of its obligations in the aggregate principal amount of five million one hundred forty-four thousand dollars (\$5,144,000) and to issue such amount of these obligations (the obligations so issued being hereinafter called the bonds) as may be necessary to assist the development of the project; and

Whereas the local authority has requested the United States Housing Authority to make annual contributions to it to assist in achieving and maintaining the low-rent character of the project; and

Whereas the local authority certifies that it has the following assurances of its meeting the conditions precedent to such United States Housing Authority contributions: (i) A plan for the development of the project on a site on which there are unsafe or insanitary dwelling units which will be eliminated by demolition during the development of the project in a number at least equal to the number of new dwelling units to be provided in the project; (ii) the legal and enforceable right under the Kentucky Constitution, statutes, and decisions of the court of appeals to full exemption of the project from taxes and special assessments; and (iii) a contract dated April 5, 1938, between it and the city of Louisville pursuant to which the city of Louisville has agreed that during the useful life of the project (which shall in no event be less than the number of years during which any of the obligations issued to assist the development of the project shall remain outstanding) it will not levy any taxes, assessments, fees, or charges against the project or against the local authority for or with respect to the project; and

Whereas, the United States Housing Authority has determined that full tax exemption of the project now amounts to local annual contributions which equal at least twenty percent (20%) of the United States Housing Authority annual contributions to be provided hereunder; and

Whereas, the local authority certifies that the project will be developed in such a manner as to observe the cost limitations of section 15 (5) of the United States Housing Act of 1937; and

Whereas, the United States Housing Authority has determined that the United States Housing Authority annual contributions herein provided for will assist in achieving and maintaining the low-rent character of the project, now, therefore, this contract witnesseth:

1. *Purpose of contract.*—Subject to the provisions of this annual contributions contract (hereinafter called the "Agreement") the United States Housing Authority agrees to assist the local authority in achieving and maintaining the low-rent character of the project by making annual contributions to the local authority, for a period of years as hereinafter provided, in a sum per annum equal to three and one-half percent ($3\frac{1}{2}\%$) of the actual development cost of the project as determined by the United States Housing Authority, but in no event to exceed the amount of one hundred eighty-two thousand two hundred-fifty dollars (\$182,250) per annum.

2. *Period of annual contributions.*—The annual contributions provided for in paragraph 1 hereof will be paid annually during the period from the date when the United States Housing Authority shall have determined that the development of the project has been completed and that the project is ready for occupancy (hereinafter called the "completion date") to and including the date of June 15, 1998.

3. *Date of payment.*—At any time on or after the completion date, the local authority may file its first requisition requesting the United States Housing Authority to pay the first annual contribution. The first annual contribution will be due and payable by the United States Housing Authority on the June 15 or December 15 (whichever is sooner) following the date of the filing of this requisition. The first payment shall be in an amount representing one-twelfth ($\frac{1}{12}$) of the

amount of the annual contribution for each month (or fraction thereof over fifteen (15) days) from the completion date to the next succeeding June 15.

The second annual contribution will be due and payable on said June 15 next succeeding the completion date and subsequent annual contributions will be due and payable on June 15 of each year thereafter. Each requisition for annual contributions after the first requisition shall be filed by the local authority with the United States Housing Authority at least 90 days before the date on which such contribution is payable: *Provided*, That if the first requisition is filed within 90 days before the June 15 following the completion date, a requisition for the second annual contribution may be filed simultaneously with the first requisition or any time thereafter prior to said June 15.

4. *Requisitions for annual contributions.*—The first requisition for annual contributions shall be accompanied by a certificate signed and sworn to on behalf of the local authority stating that during the development of the project unsafe or insanitary dwelling units were eliminated from the site of the project in an amount at least equal to the number of new dwelling units provided in the project.

Each requisition subsequent to the first one shall be accompanied by a certificate or certificates signed and sworn to on behalf of the local authority which shall state whether during the 12 months' period ending with the December 31 next preceding the date of the filing of the requisition (each such 12 months' period from January to the following December 31, both inclusive, being hereinafter called the "12 months' period").

(1) The local authority has maintained the low-rent character (as hereinafter defined in paragraph 6) of the project:

(2) The local authority has received local annual contributions (as hereinafter defined in paragraph 7) in aid of the project which equal at least 20 percent of the annual contribution from the United States Housing Authority; and

(3) The local authority has paid the wages and fees prevailing in the locality of the project as determined or adopted (subsequent to a determination under applicable State or local law) by the United States Housing Authority (hereinafter called the "prevailing wages") to all architects, technical engineers, draftsmen, technicians, laborers, and mechanics employed in the administration of the project.

Such certificate or certificates shall be accompanied by such supporting data as may be required by the United States Housing Administration, including a statement (on forms to be furnished by the United States Housing Administration) certified as correct by the chief fiscal officer of the local authority showing, for the aforesaid 12-month period, the rentals charged, the gross revenues and income, the operating expenses, the net income of the project, and the income and size of each family which is a tenant in the project.

(5) *Honoring of requisition and method of payment.*—The United States Housing Administration will pay each annual contribution on or before the date on which such payment is due hereunder unless there has been a substantial breach, as hereinafter defined in paragraph 9. Each annual contribution will be paid in the following manner:

(a) If the United States Housing Authority holds obligations of the local authority, by applying the amount of such annual contribution (without any credit for interest thereon) first toward the payment on any bonds held by the United States Housing Authority of the interest and principal due on the date the annual contribution is payable, or which will become due on or prior to the date on which the next succeeding annual contribution is payable hereunder; and then toward the payment on any other obligations of the local authority held by the United States Housing Authority of interest and principal due on the date the annual contribution is payable. Any balance of such annual contribution remaining after such payments of interest and principal shall be paid to the local authority in cash;

(b) If the United States Housing Authority does not hold obligations of the local authority, by paying the entire amount of such annual contribution to the local authority in cash.

6. *Low-rent character of project.*—The local authority agrees to maintain the low-rent character of the project. The project shall be regarded as retaining its "low-rent character" so long as it continues to be owned by the local authority or some other public body, and is administered in such a manner that the dwellings in the project:

(a) Will be provided at no higher rentals than the local authority shall find necessary to assure revenues which (together with the United States Housing Authority annual contributions provided hereunder, any local cash contributions,

and any other revenues derived from the administration of the project) will be sufficient: (i) To pay, as same become due, the principal and interest on the bonds; (ii) to meet the cost of, and to provide for, maintaining and operating the project (including the cost of any insurance, and such reserves for replacements as may be required by the trust indenture securing the bonds) and the administrative expenses chargeable to the project (all of which are herein called the "operating expenses"); and (iii) to create and maintain such other reserves as may be required by said trust indenture securing the bonds; all to the end that the project shall not be operated for profit or as a source of revenue to any public or private agency; any rentals charged and collected in excess of the limit of rentals prescribed in this paragraph being hereinafter called "profits";

(b) Will be safe and sanitary and will be provided solely for families of low income whose net income: (i) At the time of admission to the project does not exceed five times the rental (including the value or cost to them of heat, light, water and cooking fuel) of the dwellings to be furnished such families, except that in the case of families with three or more minor dependents such ratio shall not exceed six to one; (ii) after admission and during the most recent 12 months' period does not unreasonably (as determined by the United States Housing Authority) exceed the aforesaid ratios; and (iii) during the three most recent consecutive 12 months' periods of residence in the project does not on the average exceed the aforesaid ratios.

At the time of admission of each family as a tenant, the local authority will obtain from the head of such family a sworn statement that the family is of low income (that is, that it cannot afford to obtain safe, sanitary, and uncongested privately owned housing) and setting forth the total income of such family for the year preceding its admission, and on January 1 of each year thereafter, the local authority will obtain a similar statement for the preceding 12 months' period. The local authority shall be protected in acting upon any such sworn statement believed by it to be genuine and correct and to have been signed by the person by whom such statement purports to have been signed: *Provided*, That when the local authority obtains actual knowledge that any family which is ineligible for tenancy is residing in the project, it shall take the necessary action to have the family evicted from the project.

7. *Local annual contributions.*—The "local annual contributions" for any year as used in this agreement shall include any contribution made available for the project in such year by the State, city, county, or other political subdivision in which such project is situated, in the form of tax exemptions or tax remissions (general or special) or cash. The value of a local annual contribution in the form of full tax exemption shall be regarded as the annual amount which would be levied by means of taxes and special assessments on or with respect to the project if the project were privately owned and subject to normal taxation and assessment.

8. *Prevailing wages.*—The local authority agrees to pay not less than the prevailing wages to all architects, technical engineers, draftsmen, technicians, laborers, and mechanics employed in the administration of the project.

9. *Definition of substantial breach.*—A "substantial breach", as that term is used in this agreement, shall be deemed to have occurred if:

(a) During the most recent 12 months' period: (i) the total annual rentals established for dwelling units in the project have been collected for such period in an amount which produced profits equal to or greater than ten per cent (10%) of the rent limit prescribed in paragraph 6 (a) for such period; or (ii) more than forty (40) families occupying dwelling units in the project are ineligible for tenancy under the conditions prescribed in paragraph 6 (b); or (iii) the local authority has not received local annual contributions in aid of the project which equal at least twenty per cent (20%) of the annual contribution next to be made by the United States Housing Authority; or (iv) the local authority has paid less than the prevailing wages to at least ten per cent (10%) of all the architects, technical engineers, draftsmen, technicians, laborers, and mechanics employed in the administration of the project;

(b) During the whole preceding period of administration of the project the total rentals established for dwelling units in the project have been collected in an amount which in said period produced profits equal to or greater than ten per cent (10%) of the rent limit prescribed in paragraph 6 (a) for the most recent 12 months' period.

(c) There has been: (i) a failure to eliminate unsafe or insanitary dwelling units substantially equal to the number of new dwelling units provided in the project; or (ii) an administration of the project involving continued excesses or extravagance in operating expenses, the diversion of revenues to uses other than

those enumerated in paragraph 6 (a), the overcrowding of dwellings, or the occupancy of dwellings by families which are ineligible for tenancy under the conditions prescribed in paragraph 6 (b); and any such conditions have continued without being remedied for a period of six (6) months after written notice (hereinafter called the "Preliminary notice") has been served by the United States Housing Authority upon the local authority specifying the nature of such conditions and requiring them to be remedied.

10. *Remedying of substantial breach.*—If there has been a substantial breach, the United States Housing Authority will serve upon the local authority at least a sixty (60) days' notice thereof (hereinafter called the "Substantial breach notice"). If the substantial breach is not remedied within this sixty (60) days' period, the United States Housing Authority may withhold all annual contributions due on dates subsequent to the expiration of such period until the substantial breach is remedied. When such breach is remedied, the United States Housing Authority will pay all annual contributions which have been withheld because of such breach: *Provided*, That the United States Housing Authority may reduce such annual contributions or any other annual contributions payable after such breach is remedied by an amount not in excess of the amount of any profits by reason of which a substantial breach notice was served under paragraph 9 (a) (i) or 9 (b), or the amount representing the difference between the prevailing wages and the lower wages actually paid (except to the extent that such difference was later paid to the employees entitled thereto) by reason of which a substantial breach notice was served under paragraph 9 (a) (iv).

The following action when taken by the local authority will constitute a remedying of substantial breaches:

(a) In the case of a substantial breach under paragraph 9 (a) (i), if the local authority reduces the rentals for dwelling units established in the project so that they fall within the rent limits prescribed in paragraph 6 (a).

(b) In the case of a substantial breach under paragraph 9 (a) (ii), if the local authority has evicted, or taken action satisfactory to the United States Housing Authority to evict, the families occupying dwelling units who are ineligible for tenancy under the conditions prescribed in paragraph 6 (b).

(c) In the case of a substantial breach under paragraph 9 (a) (iii), if the local authority has received local annual contributions in aid of the project which equal at least twenty per centum (20%) of the annual contribution to be made by the United States Housing Authority for the 12-month period to which such local annual contributions relate.

(d) In the case of a substantial breach under paragraph 9 (a) (iv), if the local authority resumes or commences the payment of prevailing wages in accordance with paragraph 8.

(e) In the case of a substantial breach under paragraph 9 (b), if the local authority reduces the rentals established for dwelling units in the project so that they fall within the rent limits prescribed in paragraph 6 (a).

(f) In the case of a substantial breach under paragraph 9 (c), if the local authority discontinues or cures the conditions specified in the preliminary notice.

11. *Termination of annual contributions.*—In the event that—(a) There has been a substantial breach continuing two (2) years after a substantial breach notice has been served by the United States Housing Authority upon the local authority; or (b) There has been a flagrant and unreasonable recurrence of substantial breaches over a period of more than five (5) years; or (c) There has been an extensive recurrence of fraudulent or willful misrepresentations of material facts in the certificates and supporting data accompanying requisitions; the United States Housing Authority may terminate this agreement, but only after notice and a hearing as hereinafter provided. If the United States Housing Authority proposes to terminate this agreement, it shall serve upon the local authority at least sixty (60) days' notice setting forth the charges upon which it proposes to take such action and the time and place for the hearing on such charges. A board of review shall hold a hearing upon the charges, at which time the local authority shall be given a full opportunity to be heard. The board of review shall consist of three (3) members, one to be selected by the United States Housing Authority one by the local authority, and the third by these two members. After its hearings, the board of review shall make a written report to the United States Housing Authority containing its findings and recommendations. The United States Housing Authority shall not take any action with respect to the termination of this agreement until after it has received and considered the report and recommendations of the board of review.

12. *Reexamination of agreement.*—Any provision of this agreement to the contrary notwithstanding, the United States Housing Authority reserves the right to reexamine the status of the project ten (10) years from the date of this agreement and every five (5) years thereafter; and, at the time of any such reexamination, the United States Housing Authority may make the following modifications in the subsequent annual contributions payable under this agreement, to the extent that it finds that such modifications are warranted by changed conditions in the locality of a general economic nature:

(a) Increase the fixed amount of subsequent annual contributions payable under this agreement, in the event that there has been a corresponding decrease in the general rent-paying ability of families of low income available for tenancy in the project: *Provided*, That in no event will any annual contributions be increased to an amount in excess of three and one-half percent ($3\frac{1}{2}\%$) of the actual development cost of the project, as determined by the United States Housing Authority; or

(b) Decrease the fixed amount of subsequent annual contributions payable under this agreement in the event that there has been a corresponding increase in the general rent-paying ability of families of low income available for tenancy in the project: *Provided*, That the United States Housing Authority will not decrease such annual contributions if to do so might jeopardize the payment by the local authority of the principal and interest on its bonds as same become due; and *provided further*, That in no event will the amount of subsequent annual contributions be decreased to such an extent that the net income from the operation of the project on the basis of the maintenance of its low-rent character will be less than three and seven-tenths percent (3.7%) of the development cost of the project (being the maximum estimated annual debt service on the bonds).

The term "net income" shall mean the gross income of the project (which shall include the rentals and other revenues of the project, the annual contributions payable by the United States Housing Authority and any other cash contributions) less the operating expenses of the project, as determined by the United States Housing Authority on the basis of an audit for the 12 months' period preceding the date of the particular reexamination.

13. *Interest of Member of or Delegate to Congress.*—No Member of or Delegate to the Congress of the United States of America will be allowed to participate in the funds made available by the United States Housing Authority under this agreement.

14. *Information.*—Upon request at any time, the local authority will furnish the United States Housing Authority with such financial statements and other information and data relating to the local authority and the project as the United States Housing Authority may at any time reasonably require. Before the initial selection of tenants the local authority will furnish the United States Housing Authority with a statement of its rent schedules and method of tenant selection.

15. *State or Territorial law.*—Anything in the agreement to the contrary notwithstanding, nothing herein shall require the local authority to observe or enforce compliance with any provision hereof, perform any other act or do any other thing in contravention of any applicable State or Territorial law: *Provided*: That if any of the provisions of the agreement violates any State or Territorial law, or if compliance with the provisions of the agreement would require the local authority to violate any State or Territorial law, or if because of any other reason the local authority cannot comply with any of such provisions, the local authority will at once notify the United States Housing Authority in writing in order that appropriate changes and modifications may be made by the United States Housing Authority and the local authority in the agreement.

16. *General provisions.*—This agreement shall be binding upon the parties hereto when a copy thereof, duly executed by the local authority and the United States Housing Authority, shall have been received by the local authority. This agreement shall be governed by and be construed in accordance with the laws of the Commonwealth of Kentucky.

If any provision of this agreement, or the application thereof to any person or circumstances, is held invalid, the remainder of this agreement or the application of the provisions hereof to circumstances other than those to which it is held invalid shall not be affected thereby, if, in the judgment of the United States Housing Authority, this Agreement then continues to conform to the terms of the United States Housing Act of 1937 (Public, No. 412, 75th Cong.).

Any provision of this agreement may be waived or amended with the consent of the local authority and the written approval of the United States Housing Authority without the execution of a new or supplemental agreement, if, in the judgment of the United States Housing Authority this agreement as amended by

any such waiver then continues to conform to the terms of the United States Housing Act of 1937 (Public, No. 412, 75th Cong.).

17. *Guaranty by United States Government.*—Pursuant to the provisions of the United States Housing Act of 1937, the faith of the United States Government is pledged to the payment of the annual contributions contracted for under this agreement and appropriations are authorized to be made in each fiscal year (out of any money in the Treasury not otherwise appropriated) in the amounts necessary to provide for such payments.

In witness whereof, the local authority and the United States Housing Authority have respectively caused this agreement to be duly executed as of -----, 19-----.

CITY OF LOUISVILLE MUNICIPAL HOUSING COMMISSION,
By -----, *Chairman.*

[SEAL]
Attest:

-----, *Secretary-Treasurer.*

This agreement having been approved by the President of the United States, the United States Housing Authority has caused it to be duly executed on its behalf.

UNITED STATES HOUSING AUTHORITY,
By -----, *Administrator.*

[SEAL]
Attest:

-----, *Executive Officer.*

Mr. REILLY. We would like to have you come back tomorrow, and I want to say now that this committee is interested in this one proposition, that when the Wagner Act came to this committee a couple of years ago, it threw wide open the door to the Treasury of the United States to assume all of the responsibility of clearing the slums of our cities. This committee wrote into that bill a provision requiring a 15-percent contribution at the beginning, and a 25-percent-annual contribution. We went into conference with the Senate, and we had to come down to 10 percent and 20 percent, respectively.

As far as I am personally concerned, if we are going to strike out the 10-percent-initial payment, we should raise the contribution afterward, because I do not believe it is primarily a responsibility of the United States Treasury to clear the slums of this country, and I would like to have you bring in a blue print, so to speak, of what will be the ultimate cost to the United States Treasury of one of those formal allotments that you have made.

Mr. STRAUS. I do not have to bring it in, because I can give you a complete blue print at this very minute. There will be if this program works out, as I thoroughly believe it will work out, and as it has worked out abroad, not one dollar of cost to the United States Treasury. Every one of these loans will be repaid in full, with interest, over a 60-year period.

Mr. REILLY. When will-----

Mr. STRAUS. May I finish?

Mr. REILLY. Go ahead.

Mr. STRAUS. This is an important statement, and I want to get it on the record. That will all be repaid, with interest, and amortized over a 60-year period. The only expense to the United States Government, the only loss or drain upon the Treasury, will be the amount specifically, clearly, and openly authorized by Congress in the form of the annual grant or subsidy, to keep down rents.

Mr. REILLY. But——

Mr. STRAUS (continuing). For that purpose today, in England, where electricians get 35 and 40 cents an hour, not \$1.75 or \$2 as they get here, the British budget today has an item of \$85,000,000. We have in our bill at the present time an item of \$7,500,000. One of the amendments asked to have it raised to \$50,000,000. If we were proceeding on the British basis, with our population three times theirs, it would be \$150,000,000.

That is the only expenditure of any kind, outright loss, or anything that you want to call it, involved in this legislation.

Mr. REILLY. In a discussion last year it was brought out that the United States Government, by those annual subsidies, had to pay the amortization and interest on the loan. In other words, the United States Government took money out of one pocket and put it into the other, and in the final analysis, after 60 years with that project, got nothing for it.

That is one of the things that I would like to have cleared up, and I think the members of the committee would like to have it cleared up.

Mr. STRAUS. You want me to discuss that tomorrow?

Mr. REILLY. Yes. You come here tomorrow, and we will be pleased to have you.

(Thereupon, at 12:02 p. m., an adjournment was taken until Tuesday morning, May 3, 1938, at 10:30 o'clock.)

AMENDMENTS TO UNITED STATES HOUSING ACT OF 1937

TUESDAY, MAY 3, 1938

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met to resume consideration of H. R. 10417 at 10:45 a. m., Hon. Michael K. Reilly presiding.

Other members of the committee present: Mr. Williams; Mr. Spence; Mr. Farley; Mr. Meeks; Mr. Kopplemann; Mr. Ford; Mr. Brown; Mr. Patman; Mr. McKeough; Mr. Evans; Mr. Transue; Mr. Gifford; Mr. Luce; Mr. Crawford; and Mr. Gamble.

Mr. REILLY. The committee will come to order.

Mr. Straus, you may proceed.

STATEMENT OF HON. NATHAN STRAUS—Resumed

Mr. STRAUS. Mr. Chairman, at yesterday's hearing, you directed me to obtain for you what you termed "a blue print"—I think those are your words—of our operations, and with the object of setting up such a blue print as plainly, as simply and as clearly as possible, we have presented to you a so-called financial analysis which I think each of you has in front of you at present.

(The matter referred to follows:)

EXHIBIT VIII

Financial analysis of annual and total costs of \$1,000,000,000 low-rent housing and slum-clearance program (800,000 rooms at \$1,000 for construction and \$250 for land)

I. ANNUAL FINANCIAL CHARGES ON A SELF-LIQUIDATING OR "ECONOMIC RENT" BASIS

Annual debt service (100 percent loans at 3 percent, 60 years)...	\$36, 830, 000. 00
Taxes which would normally be charged (based upon average normal tax rates).....	22, 000, 000. 00
Operating expenses, including costs of operation and administration, insurance, repairs, and reserves for necessary replacements (at average of \$4 per room per month).....	38, 400, 000. 00
Total annual charges to be met from rentals on self-liquidating basis without subsidy.....	97, 230, 000. 00
Economic rent per room per month necessary to meet these annual charges if no subsidy either Federal or local.....	10. 12

Financial analysis of annual and total costs of \$1,000,000,000 low-rent housing and slum-clearance program (800,000 rooms at \$1,000 for construction and \$250 for land)—Continued

II. TOTAL ANNUAL CONTRIBUTIONS OR SUBSIDIES, REPRESENTING TOTAL NET ANNUAL COST TO FEDERAL AND LOCAL GOVERNMENTS TO ACHIEVE LOW RENTALS

Total annual charges (as set forth above) which would have to be met from rentals on self-liquidating basis if there were no subsidy.....	\$97, 230, 000. 00
Maximum Federal annual contribution or subsidy (3½ percent of \$1,000,000,000).....	35, 000, 000. 00
Local annual contribution or subsidy (annual value of local contribution in the form of tax exemption).....	22, 000, 000. 00
Total annual contributions or subsidies, Federal and local.....	57, 000, 000. 00
Total annual charges to be met from rentals after applying Federal and local subsidies.....	40, 230, 000. 00
Social rent per room per month which would be necessary to meet these annual charges, after applying Federal and local subsidies.....	4. 15

From the above table, it appears that the following are the percentages of the total annual charges on projects to be met through Federal and local contributions or subsidies and through rentals:

	Percent
(1) Federal annual contribution or subsidy of \$35,000,000.....	36
(2) Local annual contribution or subsidy of \$22,000,000.....	23
(3) Social rent charged tenants.....	41

In other words, the social rent (about \$4.15 per room per month) is 41 percent of the economic rent (\$10.12 per room per month) and is made possible only through the operation of both the Federal and local annual contributions or subsidies.

III. TOTAL PRESENT CAPITAL VALUE OF FEDERAL AND LOCAL CONTRIBUTIONS OR SUBSIDIES EXTENDING OVER 60-YEAR PERIOD

1. Present capitalized value of \$35,000,000 Federal annual contributions or subsidies, computed on the basis of the maximum annual contribution of 3½ percent of the development cost of projects covered by 60-year loans (which would involve 57 or 58 contribution payments since such payments do not begin until completion of project)..... \$950, 000, 000
2. Present capitalized value of \$22,000,000 local annual contributions or subsidies, computed on the basis of a corresponding period..... 600, 000, 000

The above figures are based upon the present capitalized value of the annual contributions or subsidies involved, computed upon a 3-percent cost of money. They do not, however, represent present costs or expenditures for achieving low rentals on \$1,000,000,000 worth of projects. These costs are to be spread over a long period of years, under a pay-as-you-go system for obtaining the social and economic benefits accruing over a corresponding period of years from a housing program. The annual Federal appropriations which will be necessary when the full \$1,000,000,000 housing program is constructed and in operation will never exceed \$35,000,000 per year on the basis of the maximum subsidies under the act.

Financial analysis of annual and total costs of \$1,000,000,000 low-rent housing and slum-clearance program (800,000, rooms at \$1,000 for construction and \$250 for land—Continued

IV. COMPARISON OF ANNUAL FEDERAL COST FOR LOW-RENT HOUSING AND SLUM CLEARANCE WITH ANNUAL COSTS OF OTHER FEDERAL PROGRAMS

In considering the annual Federal cost of the proposed slum-clearance and low-rent housing program, it is interesting to compare this cost of \$35,000,000 per year with the annual cost to the Federal Government of the following types of activities:

Highways (fiscal year ending June 30, 1936)	\$227, 269, 000
Agricultural Adjustment Administration benefit and rental payments relating to various crops (calendar year 1936)	432, 442, 000
Annual Federal grants for educational services (vocational education and rehabilitation, land-grant colleges, and extension services)	53, 594, 000
Mail subsidies to air carriers and merchant marines (\$12,000,000 to air-mail carriers for fiscal year ending June 30, 1936, and \$16,400,000 to merchant-marine carriers, representing average over 10-year period)	28, 400, 000

Based upon the foregoing annual subsidy expenditures, the proposed annual contribution or subsidy of \$35,000,000 for a billion-dollar housing program (and \$50,000,000 for a larger program upon the attraction of private capital) is a relatively small expenditure toward the achievement of the objective of slum clearance and decent housing for those living in the slums.

With the permission of the committee, I would like to go over that analysis in some detail. It will take about 12 or 15 minutes, and I would like, for the purposes of clearing it up as well as I am able to, to be allowed to make that statement uninterrupted, if it pleases the committee.

Now, this analysis is a financial analysis of the annual and total costs of a billion-dollar low-rental and slum-clearance program, or, terming it another way, of a program of 800,000 rooms, allowing \$1,000 per room for the total construction cost, and \$250 for land.

The division of that analysis No. 1 gives you the picture of the annual financial charges on a self-liquidating or economic rent basis.

Gentlemen, I would like to have you consider that section 1 with me for a few minutes, just disregarding wholly the matter of subsidies, and assuming that all housing projects are to be built as they might well be built merely for rehousing people without subsidies. After all, we pursue exactly the course in regard to finances as when you have R. F. C. loans. There is nothing unusual about the Government making a loan for a specific building project of some kind.

If we assume that the Government is now lending \$1,000,000,000 for rehousing people, and it wants to retire that loan, as every loan should be retired, over a period of 60 years, the annual debt service on that loan, interest, and amortization, would amount to \$36,830,000. The taxes which normally would be charged on those projects when they are completed would be \$22,000,000 a year.

Now, gentlemen, that is not a guess. That is the actual experience on the 51 Federal projects, the P. W. A. projects, which I inherited—\$22,000,000 a year.

The operating expenses, and you gentlemen know what they mean, including administration, insurance, repairs, and reserves for necessary replacements, to keep the buildings in condition, will average \$4 per room per month, maybe \$3.90 or \$4.10, and that amounts to \$38,400,000.

Therefore, those total annual charges, to be met from rentals on a self-liquidating basis, forgetting about the subsidy, would be \$97,230,000.

Mr. REILLY. Pardon me, but what is the size of that project?

Mr. STRAUS. \$1,000,000,000.

Dividing that by the number of rooms, you get an economic rent which would be charged on those projects, if there were no subsidies, of \$10.12, and the interesting thing about those figures, worked up that way, is that that is just about what we have to charge on an economic basis today, if you were to build housing, using very low interest rates from the Federal Government, and figuring no profit whatever.

Now, we go into the second part of the table. (See exhibit VIII, above.) The second part shows the total annual contribution, or subsidies, which represent the net total annual cost, both to the Federal Government and the local government, to achieve rentals which are low enough to rehouse slum dwellers. That is where our program differs from the ordinary building program. The total annual charges, which you will see set forth above, the same figure repeated again, without any subsidy, is \$97,230,000—always the billion-dollar project, Mr. Chairman.

Now, to keep the rents down from \$10.12, which is what you would otherwise have to charge, to the social rents, we are taking a figure of \$4.15, again as near as you can get to a generalization. Slum dwellers in some parts of the country pay \$2.70. In New York and Chicago, they pay up to \$6, but this figure of \$4.15 was derived after a great deal of work as being—you cannot use the word “average,” but a fair mean of a typical situation.

The maximum Federal annual contribution or subsidy which would be permitted under the act is a total of \$35,000,000 a year, on a billion dollars worth of housing. The local annual contributions, the contributions from the localities, the cities, considering the annual value of the local contribution in the form of complete tax exemption, would be \$22,000,000, which, again, is the figure, as you will see, taken from table 1, as the taxes on a billion dollars worth of housing, figured at the rates now charged in the 51 cities in which we have projects.

Those two figures together, Federal and local subsidies, amount to \$57,000,000. If you deduct that \$57,000,000, being the total of the Federal and local contributions, from the total annual charges of \$97,230,000, you get a figure of \$40,230,000, being the total annual charges to be met from rentals in these projects, which must be met by rentals from these projects after applying the Federal and local subsidies to reduce rents. That social rent, as we call it, per room per month, which would be necessary to meet these annual charges, after applying the Federal and the local subsidies, is \$4.15 per room per month.

That is the essence of this program. It is the basis of the program. It is the theoretical and the practical basis on which similar programs have worked successfully abroad, and I believe that we are inaugurating it in a way that it will be successful here.

Let me go on. Here I am reading a sentence from the table.

From the foregoing table, it appears that the following are the percentages of the total annual charges on projects to be met through Federal and local contributions or subsidies and through rentals—

and those are the three sources by which the economic rent in these projects is made up.

The Federal annual contribution or subsidy of \$35,000,000 amounts to 36 percent of the total charges, the total economic rent. The total local annual contribution or subsidy of \$22,000,000 is 23 percent of the total economic rent, and the social rent actually charged tenants amounts to 41 percent of the total charges or total economic rent. In other words, the social rent is 41 percent of the economic rent, and, gentlemen, it is made possible only through the operation of the Federal and local annual subsidies.

Now, I am going over to page 2, at the top of the page. You asked me yesterday, one of you gentlemen, as I recall, what the total present capital value of these Federal and local contributions would be over the 60-year period. Now, there is one way to arrive at it, and that is by going to ordinary insurance company tables. What is the value of an annuity for 60 years, of \$35,000,000, payable today?—and you gentlemen who are familiar with insurance know that that is not an unusual question to ask.

Those figures, based upon the insurance tables, amount to \$950,000,000—let me repeat, as the present capital value of the Federal annual contributions or subsidies over a 60-year period.

The present capitalized value of the local annual contributions, made on the same scheme and according to the same figures, is \$600,000,000; that is the present value on an insurance premium basis, the present capital value of these recurring payments over a period of 60 years.

Now, gentlemen, these figures are based on the present capitalized value of the annual contributions or subsidies, using the figure of 3 percent for the money. Obviously, they do not represent actual present costs, but are capitalized on the basis in which, if I understood you correctly, you quite properly asked me yesterday to present them.

Let me point out that the annual charge to the taxpayers through a Federal subsidy for the entire billion-dollar program can never exceed \$35,000,000 a year, the cost of rehousing 200,000 slum families.

Now, I am going on to the end of my story, which is in part 4. That part 4 is an attempt, for the purpose of further illuminating the cost to the taxpayers of this rehousing program, to compare it with other Federal expenditures or perhaps what might be termed comparable purposes, the national well-being, the social and economic well-being of the Nation, and I had those figures looked up for the fiscal year ended June 30, 1936.

There was a Federal contribution for highways, a Federal outright grant in the United States, of \$227,269,000.

The A. A. A. benefits and rental payments—

Mr. GIFFORD (interposing). Is that for 200,000 families?

Mr. STRAUS. The number of families, for the purpose of this program covering a billion-dollar project—

Mr. GIFFORD. Will these roads be built for 200,000 families?

Mr. STRAUS. I would like to go into that very specifically later. May I reserve it for just a moment?

Mr. GIFFORD. Yes.

Mr. STRAUS. I would like to answer your question, because it is a very interesting one.

The A. A. A. benefits and rental payments relating to various crops for the calendar year 1936 was \$432,442,000.

The annual Federal grants for educational services, vocational education, and rehabilitation, land-grant colleges and extension services, amounted to \$53,594,000.

The mail subsidies to air carriers and the merchant marine was a total of \$28,400,000.

Now, that is the end of the story so far as I am concerned. Would the committee be willing to authorize the insertion of this table in the hearings, this entire table?

Mr. REILLY. Surely.

Mr. STRAUS. Because I may have read it too fast.

(See exhibit VIII.)

Mr. STRAUS. Now, the Congressman asked me the wholly reasonable and proper question, was the expenditure for the highways for 200,000 families, whereas this rehousing program would rehouse 200,000 families. Congressman, I would like to answer you in some detail, because the answer to your question goes to the root of the entire housing philosophy.

First of all, you are entitled to a Yes or No answer to your question, and the answer is obviously No, that the roads were not built for 200,000 families, but it is our contention, as part of the whole philosophy, that neither is the Federal annual payment for rehousing for the 200,000 families. The philosophy of any rehousing project must be exactly the opposite, and, Congressman, if it is not the opposite, the whole thing crashes as of the first minute, because if you are going to regard this rehousing program in terms of immediate benefit, only to those families rehoused, then I will tell you from the bottom of my heart, drop it now, for it is not worth while.

The only way you can justify this rehousing program is in precisely the same way as you justify the annual Federal expenditure for roads, for crops, and, above all, the example that I like best, for education. I do not think that any man would contend that the annual expense of educating the child, which amounts to \$88, on the average, in this country, or, for a family of three children, somewhat below the normal, \$254 per family, could properly be included in an expense chargeable to the well-being only of those children. Unless you regard that benefit, of that education, as part of a social point of view to the community, for the removal of illiteracy, the expense is not worth while; and I will say to you, in response to your question, that unless you regard the elimination of the slums, a blight on American life, as a service to the community, apart from the immediate families rehoused, then the expenditure is not worth while.

Personally, the whole housing philosophy is that the elimination of the slum is a communal and social responsibility, which must be measured in terms only of its benefit to the entire community.

Thank you for your patience in listening to a long-winded answer.

Mr. GIFFORD. Of course, the comparison interested me. It seemed a long way to go, to get a comparison here. I think I am sympathetic with your viewpoint, but I have been in the real-estate business all my life, practically, and I cannot visualize how these buildings are going to look 60 years from now. I simply cannot visualize it.

Mr. GIFFORD. We always plan to get 10 percent of the cost in rentals, and that does not count in connection with repayments on the capital value. If you cannot get 10 percent in rentals on a house that you build, you are out of luck. That is all that you are getting

here, 10 percent from the subsidies and all, on \$97,000,000, and you are quite sure in your figures that you are allowing for capital repayments?

Mr. STRAUS. I am sorry, Mr. Chairman, but I cannot hear him.

Mr. GIFFORD (continuing). But 60 years is a frightening number of years. Do you not think that, in putting this type of families in those houses, they will not be here in 25 years? You would certainly have constantly to repair and rebuild them.

What experience have you had about anything lasting as long as 60 years, or what have you found to justify the 60-year period?

Mr. STRAUS. Congressman, you have asked two questions, both of which I would like to have an opportunity to answer.

Mr. GIFFORD. They are related questions.

Mr. STRAUS. Yes. The first question is, how are these buildings going to look in 60 years, and the other question was, how is it that these rentals, figured as a total, are less than the 10 percent which you properly say a private builder generally does figure on his investment; is that right?

Mr. GIFFORD. Right.

Mr. STRAUS. As to the first question, I am particularly happy to discuss this 60-year period, because that is fundamental to the whole program, and again it is a question going to the root of the whole matter.

If we were to build these buildings to last only 15 or 20 years, which could be done, you would reduce your initial cost of the building very substantially, and reduce the amount of these loans, and we would show you a lower per-unit cost for rehousing a family, but if you attempted to amortize that smaller amount, which is relatively only somewhat reduced over a shorter period of the life of the more shoddily built building, you would so increase your rent that you would either have to have bigger subsidies or you would not rehouse your slum dwellers; and so, at the risk of the additional actual capital outlay, additional actual Federal loans, we are arranging to build on a more substantial basis, in the hope or belief that the building will be adequate for rehousing slum dwellers, and not become a slum in 60 years.

Now, in addition to the more substantial original building, we would also allow for a larger plot of land per family rehoused, which tends to prevent its becoming a slum and deteriorating.

Mr. GIFFORD. But—

Mr. STRAUS. Wait; there is a third thing, on which I personally have done a lot of work, and I have had some real-estate experience myself. We have allowed a very substantial sum, as you see here, for the necessary replacements; that is, it is the third item on the first page. In that \$4 per room per month, there is calculated a little beyond what normally would seem to be necessary for replacements and repairs, because, as you know, it is the essence of keeping up the old car, repairing it every year, and it is the essence of keeping up these buildings, to be able to paint, to put in new ranges, to keep the steps repaired, the electric wiring, and so on.

Mr. GIFFORD. Do you know what the income-tax blanks allow you for depreciation and obsolescence on buildings?

Mr. STRAUS. What they allow?

Mr. GIFFORD. What percentage. There is a mark-off every year.

Mr. STRAUS. What is that?

Mr. GIFFORD. If you know real estate, you know that you are allowed depreciation every year of how much?

Mr. STRAUS. Congressman, I am not saying that you are not absolutely right. As I say, I am pretty familiar with those things from my own building experience.

Mr. GIFFORD. If you own a hotel, for instance, or a building, do they not allow you a depreciation charge per year, so that in 20 years you would mark the thing off?

Mr. STRAUS. No, sir; I think you would find that it did average more than 20 years, but you are quite right in saying that the period is less than 60 years.

Mr. GIFFORD. Is there any member of this committee who can tell me what that figure is, on the income-tax blank?

Mr. WILLIAMS. It depends on the life of the building. They estimate it.

Mr. GIFFORD. How much do they usually deduct?

Mr. WILLIAMS. As I say, it depends entirely on the character of the building, as to the amount that it will depreciate. My experience has been that it is about 3 percent.

Mr. GIFFORD. Is that brick or frame?

Mr. WILLIAMS. Frame.

Mr. CRAWFORD. They allow me 2 percent; they have cut me from 3 percent to 2 percent.

Mr. STRAUS. I do not think that difference between what we are figuring these buildings on the 60-year basis and what the Government, in an effort to raise its necessary taxes, will allow, is so great. But I will say this; I do not know how many of you ride horseback, but in riding horseback we do not try to pick the stone walls to go over; we try to pick the openings. I do not say that every one of these buildings will be a complete and substantial building 60 years from now. I am merely attempting to arrive at a figure which will be fair and reasonable.

Mr. GIFFORD. I believe it is 33 years that the Government allows, and my question referred to the fact that now you make it 60.

Mr. STRAUS. It is 60 in the act.

Mr. GIFFORD. But in the income-tax report they allow you, on the average, not over 33 years. Some say it is 2 percent and some say it is 3 percent.

Mr. KOPPLEMANN. May I ask what the time limit is that is set for repayment in these foreign countries that you visited?

Mr. STRAUS. This 60-year period is the standard, very widely adopted in Europe, and I would say, if the Congressman would allow me to, that the matter of what depreciation the Federal Government allows is a matter of tax policy in maintaining revenue, and I question whether that can be taken as an estimate of the reasonable life of a building, when there are so many buildings built in colonial days that have been kept up and that are just as good now as they were then.

Mr. GIFFORD. Do you know—

Mr. STRAUS. May I go on and answer you on the other point?

Mr. GIFFORD. Are those frame buildings?

Mr. STRAUS. Entirely; almost entirely.

Let me go on to the other point. The Congressman said that that is not figuring the full 10-percent income which the private builder figures always on his investment. I would say to you, Congressman, that that

is one of the fundamental arguments, one of the three or four basic, fundamental arguments of this program, that the private builder does charge 10 percent on his investment, because he does it to cover his risk, to cover a profit, which will not rehouse slum dwellers either here or abroad.

Mr. WILLIAMS. Now, Mr. Straus, in your set-up here you refer to the local contributions as remission of taxes. Are those projects which you inherited from the P. W. A. in the various cities of this country, these 51 projects, being taxed by the localities?

Mr. STRAUS. They are completely tax-exempt.

Mr. WILLIAMS. They are tax-exempt?

Mr. STRAUS. Yes.

Mr. WILLIAMS. The fact is that they cannot tax them, is it not?

Mr. STRAUS. That is right.

Mr. WILLIAMS. They are not subject to taxation?

Mr. STRAUS. That is correct.

Mr. WILLIAMS. Now, why?

Mr. STRAUS. Because they are federally owned.

Mr. WILLIAMS. Simply because they are federally owned?

Mr. STRAUS. Yes, sir.

Mr. WILLIAMS. How can the courts hold, and how can the court in Kentucky hold, other than that, notwithstanding the fact that these are local housing authorities, the properties which they own are not subject to taxation, because they are used in public service, and for that reason the city would not lose anything anyway?

Mr. STRAUS. I am not competent to discuss that Kentucky statute. I am not a lawyer, and I do not know.

May I ask counsel?

Mr. WILLIAMS. I think the logic of it is——

Mr. STRAUS (interposing). May I answer you, because I have it in my head now, and I had better answer you quickly, for that is a legal point?

Counsel says that no such decision as you are quoting has ever been made. The courts have held that the tax exemption of these projects is constitutional, that the specific statute for that purpose was.

Mr. SPENCE. The court in Kentucky, as I understand it, held that the elimination of the slums is a governmental function, and because of that this property of the United States Housing Authority, or that real estate, was not taxable.

Mr. STRAUS. It held that that statute exempting these projects was constitutional.

Mr. SPENCE. On that theory.

Mr. STRAUS. On that ground.

Mr. SPENCE. That it was functioning to eliminate slums.

Mr. WILLIAMS. It held that the city could not tax it; that would be the result of it, that the city could not tax the property held by the local housing authority for that very reason.

Mr. STRAUS. Counsel tells me that exactly the opposite is true; that they merely held that the specific statute exempting these projects is constitutional, on the ground of public and social purposes.

Mr. WILLIAMS. That is just what I am saying. That is the same thing. The result is that they would not have the right to tax them, simply because they are public agencies, and that the act of the legis-

lature authorizing the tax exemption was constitutional. That, to my mind, is the common sense of the situation.

Mr. STRAUS. I do not want to enter into a legal discussion with you on that point, and on good grounds, that I am not a lawyer, but I may say for the sake of the record that what you are stating, according to counsel, is not the fact, or that——

Mr. WILLIAMS. I think that that is the fact, and that that is the common sense of the situation.

Mr. STRAUS. May I finish?

Mr. WILLIAMS. And I think that that is the situation all over this country, for the simple reason that it is a nonprofit concern, and it is a public agency, which is the same, I would say, as a school or any other public agency that is not established for private profit, and for that reason it is not subject to taxation.

I think that that is the logic of the situation, and I think that that is what the courts of this country are holding, and what they will hold.

Mr. STRAUS. I would like to make a statement on that, if you will let me.

No court anywhere in this country, so far as I know, has held that these housing projects built by the localities, with the loans from the Federal Government, and grants, are automatically tax-exempt. All that has been held by any court anywhere is that the statutes enacted by the legislatures, regularly and duly enacted statutes authorizing the locality to exempt these projects, are constitutional.

Mr. WILLIAMS. There is no question about that at all, but——

Mr. STRAUS. Excuse me. That is the only point, so far as I understand it, that has been raised in any case in any State, and is the only point on which the courts, therefore, have ruled, and——

Mr. WILLIAMS. If they——

Mr. STRAUS. Excuse me, sir. Specifically, in the State of Kentucky, as a matter of record, the only issue was whether the statute authorizing tax exemption for these projects was or was not constitutional.

Is that right, Mr. Keyserling?

Mr. KEYSERLING. That is correct.

Mr. STRAUS. And that issue was decided, as only the courts could decide, that the statute was constitutional.

Mr. WILLIAMS. They could not decide it any other way; I concede that. As I said, that would be on the general principle that, being a public agency, they were not subject to taxation, anyway, and of course a statute exempting them from taxation would be declared constitutional. If that is not logical, I do not know what is.

As I understand your statement, you are not very much concerned about this 10-percent initial contribution by the locality.

Mr. STRAUS. Congressman, I hesitate to commit myself without really knowing what your question is, that I am not much concerned. I would not be asking for an amendment unless I were deeply concerned.

Mr. WILLIAMS. All right. What has been your operation under it? What have the localities actually put up?

Mr. STRAUS. The localities have in most cases floated bonds locally to take care of their share of the loan.

Mr. WILLIAMS. Who has done that?

Mr. STRAUS. In one case, a private company purchased them. In another case, local bankers.

Mr. WILLIAMS. Who put up the bonds, is what I am getting at?

Mr. STRAUS. They are bonds of the local housing authority.

Mr. WILLIAMS. The bonds of the local housing authority are issued for the purpose of contributing the 10 percent? Is that right?

Mr. STRAUS. I would not use the word "contributing." Of raising that much of the capital.

Mr. WILLIAMS. Of initiating——

Mr. STRAUS (interposing). Of raising 10 percent of the capital.

Mr. WILLIAMS. Ten percent of the initial capital?

Mr. STRAUS. That is right.

Mr. WILLIAMS. Is that a separate bond issue from the one that the U. S. Housing Authority buys?

Mr. STRAUS. Yes.

Mr. WILLIAMS. Is it subject to it, or is it subordinate to the first lien?

Mr. STRAUS. I can answer that very specifically. You ask, is it subordinate to the Government loan?

Mr. WILLIAMS. Yes, or——

Mr. STRAUS (interposing). I was urged repeatedly to give that sort of subordination to the 10 percent, subordinating the Government loan, and under the terms of the statute, I might have the right to do it, but I have steadfastly refused. The only preference that has been given anywhere is to allow the earlier retirement of the local loan.

Mr. WILLIAMS. Was it all on a par, then, so far as the lien is concerned?

Mr. STRAUS. Perhaps I should elaborate that by saying that under the terms of the act the amount of the Federal grant, or subsidy, must be applied toward the conservation of the Federal loan, so that the United States Government cannot possibly lose.

Mr. WILLIAMS. How do you determine the value of the project, the acquisition or the development value of the project?

Mr. STRAUS. On the basis of the best calculations that we are able to make in advance. Of course, the final cost will only be determined after it is completed.

Mr. WILLIAMS. Now, I have before me the contract which you were kind enough to send me, between your Housing Authority and the Louisville Municipal Housing Commission. Do you have in mind that particular contract?

Mr. STRAUS. Surely.

Mr. WILLIAMS. What was estimated as the development cost of that project?

Mr. STRAUS. I have it all here. The estimated project cost is \$4,734,000.

Mr. WILLIAMS. And, of that, you propose to buy \$4,261,000 of bonds?

Mr. STRAUS. Ninety percent of that. I am sure that that is right.

Mr. WILLIAMS. That is the figure that you give here.

Mr. STRAUS. Good.

Mr. WILLIAMS. But in that same agreement, you authorize the issuance of \$5,144,000 in bonds.

Mr. STRAUS. That is the same question that the President asked me when I took it over there. We did that for this reason, that we want to be sure that there is enough to take care of the entire cost of the project. As you know, a 10-percent overrun is not too large to figure on, but to safeguard the Government's investment, we have a provision that in case the actual cost is more than the estimated cost, that additional burden must first be taken up by the 10 percent locally.

Mr. WILLIAMS. Then you have more than 90 percent of the value of the project in bonds outstanding.

Mr. STRAUS. No, sir.

Mr. WILLIAMS. You cannot do it under this law, and why are you doing it?

Mr. STRAUS. Because the loan contract specifically provides that the local contribution shall be always in excess of 10 percent. Their 5 percent is put up as soon as we put up 50, and their 10 percent is put up as soon as we put up 90.

Mr. WILLIAMS. But they get that out of the bond issue.

Mr. STRAUS. Their local bond issue; yes. You mean, is it my opinion that we have arranged to pay for more than the actual cost?

Mr. WILLIAMS. Yes.

Mr. STRAUS. We have not. We have arranged for a margin of safety of 10 percent. They will not issue any more bonds than the project costs.

Mr. WILLIAMS. But you have authorized it.

Mr. STRAUS. We authorize it. Suppose that it ran 10 percent over; we would be in trouble.

Mr. WILLIAMS. Then you would issue it?

Mr. STRAUS. No.

Mr. WILLIAMS. What is the use of having it in there, if you do not issue it?

Mr. STRAUS. To provide for the contingency of the overrunning of cost, which may be as much as 10 percent, and only for that reason.

Mr. WILLIAMS. In case you did run over the 10 percent, then you would issue some more bonds?

Mr. STRAUS. I hope not. I do not contemplate going over this 10 percent. I am not accustomed to doing that in my business life, and I do not see why it should be done here.

Mr. WILLIAMS. I do not yet understand why you authorize the issuance of more bonds than the project is worth.

Mr. STRAUS. I do not know how better to answer you—to tie up the communities to putting up the excess first. If we would allow for only 100 percent bond issue on the estimated cost, then the community would be obligated to put up only the 10 percent, and I wanted to be sure that they would put up 10 percent of the total actual cost, and to do that I wanted to make the whole picture perfect, with the idea that the first excess would be assessed against their 10 percent, and that only after that had been increased to the full amount would the Federal Government come in.

I am glad to discuss—

Mr. WILLIAMS. In any event, there is no outside capital coming into it at all?

Mr. STRAUS. No; the local loan and the Federal loan.

Mr. WILLIAMS. The local housing authority puts up the 10 percent?

Mr. STRAUS. It sells bonds for the 10 percent in most cases.

Mr. WILLIAMS. Then it is a bond issue exactly on a par with the Federal bond issue?

Mr. STRAUS. No; that is not correct. First of all, the subsidies are first pledged to the repayment of the Federal loan, and often the local loan is at half a percent higher interest, some 1 percent, more than the Federal loan, so that they are not completely on a par.

Mr. WILLIAMS. Well, does not the cash contribution of the Government go to the payment of these other obligations?

Mr. STRAUS. First to the Federal loan, and after that has been fully met, then it is applicable to the other loans.

Mr. WILLIAMS. To what extent have the local authorities issued bonds?

Mr. STRAUS. Almost entirely.

Mr. WILLIAMS. Have the local authorities disposed of any of them to the banks, outside of the 10 percent?

Mr. STRAUS. Outside of the 10 percent?

Mr. WILLIAMS. Yes.

Mr. STRAUS. Yes.

Mr. WILLIAMS. Who bought them?

Mr. STRAUS. In one case, I know that it is a big financial institution. In another case a public-spirited private citizen. In another case a group of bankers locally did underwrite it. It has not been the same in any two cities.

Mr. WILLIAMS. I come back to my question again: Are they all under the same debenture and the same trustee?

Mr. STRAUS. No.

Mr. WILLIAMS. What I mean is, are the bonds that are sold to the local authorities and the bonds sold to the United States Housing Authority all in one issue?

Mr. STRAUS. No, sir; entirely separate issues, completely separate. They have different interest rates, different security, different maturity.

Mr. WILLIAMS. Have you always just simply drawn the line at 10 percent and sold those bonds, or have they sold them to the local authorities and then sold 90 percent to the Housing Authority?

Mr. STRAUS. Right.

Mr. WILLIAMS. That has been the practice?

Mr. STRAUS. That is correct.

Mr. WILLIAMS. They have in no case put up any funds from any outside sources?

Mr. STRAUS. No, sir; that is not quite correct, because in some cases there have been actual contributions made from outside sources—one put up a park, and the other sewage lines, or something like that.

Mr. WILLIAMS. Have there been any capital grants at all?

Mr. STRAUS. Those constitute capital grants.

Mr. WILLIAMS. Have there been any made pursuant to the capital grants section of the act?

Mr. STRAUS. No, sir. Do you want me to answer why?

Mr. WILLIAMS. Well, I can guess why; I think that we all can, because they would have to put up something if they did.

Mr. STRAUS. No. The real reason for that is that you cannot achieve low rentals by the capital grant method.

Mr. WILLIAMS. Why can't you?

Mr. STRAUS. If you want to go into a discussion of capital grants—

Mr. WILLIAMS. Briefly. If they put up contributions required here under this law, why would it not work?

Mr. STRAUS. Why has the capital grant system for rehousing slum dwellings failed in every country that it has been tried in, including this country—that is your question?

Mr. WILLIAMS. Yes.

Mr. STRAUS. There are a number of reasons, and now you are right down my alley, because I have written considerably on that matter. The first reason it has failed, both here and abroad, is that the amount of the capital grant or subsidy tends to be swallowed up in increased costs. That tendency has manifested itself in every country in which the capital grant method of subsidy has been tried.

Now, No. 2—

Mr. WILLIAMS. Why should that be?

Mr. STRAUS. I do not know. Human nature being as it is, I suppose.

Congressman, may I ask this—

Mr. WILLIAMS. That is a bald statement, that it is true, without any reason.

Mr. STRAUS. I can substantiate that bald statement by ample facts and figures from at least five European countries, and am willing to do that later; but meanwhile I assume you will accept that as a statement of fact, for which you hold me responsible. As to why it is, I also could go into that. It would be a rather long speech, but you can trust me that that is so.

Mr. WILLIAMS. Well—

Mr. STRAUS (interposing). The second reason, and I would like to get this in the record—the second reason it is a failure is because it assesses upon 1 year or upon one session of Congress the entire cost of remedying a condition, which is the responsibility of a whole generation, or two generations. To assess the cost of rehousing slum dwellers as a capital grant by donating this much of the total cost of the project would be just as sensible as putting up a hospital and donating as a capital grant the entire cost of maintaining that hospital over the next 50 or 60 years, or, on the other hand, putting up a new school and saying “We will go ahead and consider as a capital grant the entire cost of all the education to go on in this school over the next 50 or 60 years.

You are here making good, sir, for the sins of previous generations in our slums, and it is not proper—it does not work out; it never has—to assess the cost of making good for those sins entirely on our generation. That must be spread over the entire life of these projects.

I hope the answer is not too long.

Mr. WILLIAMS. I judge that you would be willing to have the whole section, then, stricken out of this law, if that is the situation?

Mr. STRAUS. I do not want to go into other amendments, if you would let me off.

Mr. WILLIAMS. That is just an idle gesture, then, to have put that in there, and I thought so at the time.

Mr. REILLY. Mr. Williams, let me ask him one question.

Mr. WILLIAMS. All right.

Mr. REILLY. What do the bonds issued by the Housing Authority have in back of them?

Mr. STRAUS. The three items which you will find on page 1 of this statement; that is, they have back of them the income from the

property; in other words, the social rents; they have back of them the local annual contribution or subsidy, and the Federal annual contribution or subsidy.

Mr. REILLY. Well——

Mr. STRAUS. I ought to finish that. However, the Federal subsidy goes first to the repayment of the Federal loan, so the local bonds have only a secondary claim on it.

It is important to get that into the record.

Mr. REILLY. I cannot see how anybody would invest in those housing bonds.

That project is already mortgaged 100 percent.

Mr. STRAUS. That is a swell statement. May I answer it?

The Congressman said he could not see how anybody would invest in those housing bonds. I will tell the Congressman that if this program were to continue without a jot or tittle of change in the act as it is at present, but with merely the addition of an initial amount of money, we can make the entire program work and that the sale of those bonds is going to be increasingly possible day by day and month by month. That is a fact, and I am willing to have that statement get into the record.

You may properly ask, why are we seeking amendments eliminating the 10 percent of local participation? The only reason that I am eliminating it is that the President of the United States has told me that he wants to speed up the reemployment of people, and there is not any doubt at all that if we can float the entire loan as a Federal loan, you can speed it up, because the machinery incidental to the technicalities of marketing this local 10 percent is a time-consuming and educational proposition, and I would not be surprised if the Congressman himself, inside of a year, would be ready to buy these bonds, or maybe 2 years, when he sees how safe they are.

Mr. REILLY. Maybe that is true. But whether they contributed or not, they charged it up to costs, and this act provided that they would contribute 10 percent.

Mr. STRAUS. Congressman, wait a minute, for now you are accusing me of not administering the act as written, and that is not fair.

Mr. REILLY. Under the bond issue, it goes into the cost.

Mr. STRAUS. That is right. That is in the act.

Mr. REILLY. I do not look upon that as a contribution at all.

Mr. STRAUS. It is not a contribution.

Mr. REILLY. It is a second mortgage that the Government has to pay for.

Mr. STRAUS. There are no mortgages in this property.

Mr. REILLY. It practically amounts to a second lien, that the Government has to make up in subsidies.

Mr. WILLIAMS. You say that there is no mortgage against this property?

Mr. STRAUS. None.

Mr. WILLIAMS. What kind of security is there?

Mr. STRAUS. I tried to make that plain yesterday. I have not allowed any mortgages on those properties. The moment you talk of a mortgage, the localities or the bankers who hold this 10 percent want a first mortgage. They won't take a second mortgage. The moment you give anybody a mortgage, the locality wants the first mortgage, and I do not think it is good business for the United States Government to give a first mortgage on a 10-percent bond issue, and to take

a second mortgage itself; and so, at the risk of not going forward quite as quickly on this program, and at the risk of incurring a good deal of criticism because of going slowly, I have insisted that there be no mortgages. There are no mortgages, and will be none, if I have my way, on these projects. We have given to the local loan priority of repayment, and that is the only preference that I have given.

Mr. WILLIAMS. But you have done the same thing in effect, haven't you? Does not your agreement create a first lien on the project and the income from it?

Mr. STRAUS. No; it creates neither a first lien on the project locally nor a first lien on the income. It does neither.

Mr. WILLIAMS. What is the—

Mr. STRAUS. Let me finish. You asked me what it did. What the agreement does is to give to the 10 percent of the bonds in that particular case priority of repayment. I am not a lawyer, but I know that there is an enormous difference between a lien on the revenues of a project, and they have a second lien, and a mortgage. You cannot foreclose a project by a lien on the revenues. You can if you have a mortgage foreclose on the project, and I do not want to give any locality or any private investor the right to foreclose on a project for which the United States Government has put up 90 percent of the cost.

Mr. WILLIAMS. You do create a lien against the income, do you not?

Mr. STRAUS. Yes; a secondary lien.

Mr. WILLIAMS. No; it is a first lien.

Mr. STRAUS. No, sir. The first proceeds of the annual grant or subsidy go to payment of interest on the Federal loan. I have given them priority in the repayment of their capital, so that their local capital is repaid in that particular case in advance of repayment of the Federal loan, and that is the only priority they have—get me?

Mr. WILLIAMS. Yes; but the first lien is created in the same indenture that you give. It says so.

Mr. STRAUS. Congressman, it honestly is not a first lien.

Mr. WILLIAMS. Let me read this to you:

Security payable as to both principal and interest from and secured by an exclusive first lien, which shall also secure the entire obligation under the trust.

Mr. STRAUS. What page is that?

Mr. WILLIAMS. It is in paragraph 1. I am reading from this agreement that you have with the Louisville Housing Commission.

Mr. STRAUS. The provisions of the act are very clear that the amount of the Federal loan or subsidy must be applied first to the repayment of the Federal loan, and I cannot without violating the dictates of the act, change that. You said that in the law that you enacted.

Mr. BROWN. The locality gets the priority on the first rentals.

Mr. STRAUS. That is true.

Mr. BROWN. That is the difference.

Mr. STRAUS. That is true.

Mr. WILLIAMS. I do not see much difference.

Mr. STRAUS. Would you be willing to have counsel answer you?

Mr. WILLIAMS. That is the way it seems to me.

Mr. STRAUS. Mr. Chairman, would it be all right for Mr. Keyserling to make a statement on that?

Mr. REILLY. Yes.

Mr. KEYSERLING. The loan contract defines bonds as the bonds taken up by the United States Housing Authority, and not the bonds sold locally. The reference to the trust indenture in paragraph L has to do with the indenture's securing the Federal bonds, so that the lien or pledge referred to here would merely apply to further obligations taken up by the United States Housing Authority in event the project cost more, and has nothing to do with the local issue whatsoever.

Mr. STRAUS. It has nothing to do with the local issue whatsoever. That is the important answer.

Mr. FORD. For clarification, might I ask a couple of questions?

Mr. REILLY. Is Mr. Williams through?

Mr. WILLIAMS. No.

I want to say for the record that it was my understanding, at the time this legislation was passed, that the locality would actually put up 10 percent of this initial amount. That was my understanding of it, anyway. I do not know what the other members of this committee thought about that, but it never occurred to me that the local housing authority that issued the bonds that the United States Housing Authority bought could also issue bonds to raise this 10 percent and place that practically on a par, on a level with the other issue. That was not the idea of the original legislation at all.

Now, I asked a question yesterday as to what was the relative cost of the land that was used upon which these structures were built in comparison with the structure after it was finished, the value of the project after it was finished.

Mr. STRAUS. I do not exactly understand the question. The value of the land——

Mr. WILLIAMS. How do you get the land on which you erect these projects?

Mr. STRAUS. The local authorities buy it.

Mr. WILLIAMS. What is it in general?

Mr. STRAUS. What is it? Partly in the slums, and partly vacant land.

Mr. WILLIAMS. The part of it that is in the slum area is in places where you already have dilapidated, insanitary, and insecure houses, and they are torn down?

Mr. STRAUS. That is right.

Mr. WILLIAMS. And these buildings are erected in their place?

Mr. STRAUS. Yes.

Mr. WILLIAMS. That is, in some cases?

Mr. STRAUS. Yes.

Mr. WILLIAMS. In other cases you go out into the suburbs, or somewhere else, and buy vacant land?

Mr. STRAUS. That is right.

Mr. WILLIAMS. Have you any figures to show the relative cost of the land that is used, as compared with the finished project?

Mr. STRAUS. You mean, the relative cost of the vacant land and land in the slums?

Mr. WILLIAMS. I mean the cost of the land, comparable with the cost of the finished project.

Mr. STRAUS. What percent of the total cost the land cost is?

Mr. WILLIAMS. Yes.

Mr. STRAUS. Surely, we have.

Mr. WILLIAMS. That is what I have been trying to get.

Mr. STRAUS. All right. We have a calculation on that, but I am not sure that I have it here, but I have it as to slum sites and as to vacant sites.

Mr. WILLIAMS. Have you—

Mr. STRAUS. Wait a minute, now. That is not a complete answer, Congressman, to your question, but I can get you the complete answer. Meanwhile, the best we can do is to read to you—

Mr. WILLIAMS. I want to know the relative cost.

Mr. STRAUS. I understand your question perfectly. You want to know the relative—

Mr. WILLIAMS. The percentage cost of the land.

Mr. STRAUS. Yes; I know exactly what you want, and we do not have it here, but what I have here may do for your purpose.

Mr. WILLIAMS. I will be glad if you put that in the record.

EXHIBIT IX

MAY 4, 1938.

Hon. CLYDE WILLIAMS,
House of Representatives.

MY CONGRESSMAN WILLIAMS: You will recall that at the hearings before the House Committee on Banking and Currency this morning, you asked that we advise you what percentage of the cost of a housing project is represented by the cost of land.

In order properly to present this information, it will be helpful to give you the land-cost figures based:

(i) On the Federal projects originally undertaken by the Public Works Administration and transferred to the United States Housing Authority by Executive order;

(ii) On five projects of limited-dividend companies which were financed through the purchase of bonds by the Public Works Administration, which bonds are now held by the United States Housing Authority; and

(iii) On the nine non-Federal projects covered by the loan and annual-contributions contracts which have been made with the approval of the President.

The land-cost figures for each of these types of projects are set forth in the following table:

	Percentage of development cost of—				
	Slum sites		Vacant or partially slum sites		Average (per cent)
	Number of sites	Per cent	Number of sites	Per cent	
48 Federal projects in Continental United States (actual cost)...	26	20.8	22	7.4	15.7
5 limited-dividend projects (actual cost).....	1	13.5	4	9.3	10.9
9 non-Federal projects for which contracts have been approved by the President, involving 15 sites (estimated cost).....	8	20.0	7	13.0	16.8

It should be noted that in the case of the 15 sites involved in the 9 non-Federal projects, the estimated cost of land bears a higher relationship to the total development cost of the projects than it does in the Federal and limited-dividend company projects. This illustrates that with lower construction costs (due to contemplated economies in construction and design) in the non-Federal projects, the cost of land necessarily represents a higher proportion of the total development cost. For example, in one of the Federal projects in Louisville, Ky., the dwelling facilities cost \$4,955 per dwelling unit, whereas it is estimated that the dwelling facilities on the project to be constructed by the Louisville Housing Commission will cost \$3,656 per dwelling unit.

Since your inquiry with respect to land costs arose in connection with the discussion of tax exemption as an annual contribution, I should like to call your attention to certain factors regarding tax exemption which I may not have covered clearly in my testimony.

First, in determining the value of tax exemption, I do not believe it is significant to ascertain the taxes which were previously levied on the land to be used as the site for a project. Thus, a vacant or sparsely settled site may pay a very small tax and, correspondingly, it will require relatively few municipal services. When this site is improved, the property and its occupants will naturally require a substantially increased amount of municipal services. Correspondingly, State laws invariably provide that such improved properties are taxed at a higher rate than vacant land—a rate which is based on its assessed value. These taxes are borne (as part of their rent) by the families who occupy the property. When a public-housing project is constructed upon a vacant or sparsely settled site, the families who formerly lived in taxed properties will continue to be furnished with municipal services even though they now live in a project which is exempt from taxation. In short, the city is making a real contribution through tax exemption, for it must furnish, and pay the cost of, municipal services without receiving any taxes from the project or its occupants.

Second, I believe that the proper method of determining the value of tax exemption is to ascertain the tax which would be charged against the project on the basis of current laws and practices, in the absence of a specific grant of tax exemption. Thus, in the case of the five limited-dividend projects shown above, the average tax now being charged and collected by the localities amounts to \$2.09 per room per month. If a limited-dividend project were to be acquired by a local housing authority and devoted to low-rent housing purposes with the benefit of Federal annual contributions, could it be contended that the value of tax exemption was any less than this amount which is now being collected from these projects?

If these taxes were being waived or remitted, the fair measure of the local contribution would be the amount of the taxes now being charged on those limited-dividend projects. In the same way, I believe that the fair measure of the local contribution represented by the tax exemption of a public-housing project is the amount of the taxes which would be levied on both the land and buildings constructed.

Third, it should be noted that tax exemption is voluntary and not automatic. Since the projects are not Federal projects, but are locally owned, some voluntary, positive step is necessary if these projects are to be exempt from taxation. In the absence of any constitutional or statutory provision, these projects would be subject to taxation. It must be remembered that there is nothing inherent in public projects which makes them exempt from taxation. Tax exemption is always a matter of privilege and not a matter of right. Thus, there are four States where the housing laws do not expressly grant tax exemption, with the result the projects are recognized as being subject to normal real-estate taxes. In other words, it is optional with the State either to grant or withhold tax exemption. Public-housing projects are subject to taxation unless they are expressly exempted by State law.

Furthermore, in most of the State housing laws, the local housing authorities and the cities are authorized to fix, or enter into contracts for, payments by the local authority to the city for services in lieu of taxes. Therefore, it is within the power of the localities (and entirely optional with them) to provide for payments in lieu of taxes for services rendered by the cities. Under most of the State laws, these payments are only limited by the cost of the usual and special services which are rendered for the project or its occupants—a cost which would invariably exceed the normal taxes that would be levied against the project. In short, it is generally optional with the localities whether to provide for a payment in lieu of taxes which could equal or exceed the taxes which would be levied on the property if it were not tax exempt. In every case where credit is given for tax exemption, we are requiring the city and the local housing authority to enter into a contract that during the entire life of the project, these municipal services will be furnished without any charge in most cases and in a few cases for a small sum which never exceeds 5 percent of the shelter rent (such sums are deducted from the amount of credit given for tax exemption).

Finally, it has been urged that cities will save money in the end by granting tax exemption because the slums are so costly. It might just as well be urged that public education costs nothing because the cost of illiteracy is greater than the cost of education. The same argument could also be applied to the Federal low-rent housing contributions, for slums are costly to the Federal Government as well as to the local government. Large Federal expenditures are made for the

purpose of ameliorating the evils arising from slum conditions. In other words, the fact that slums are costly and injurious merely proves the necessity for action to solve this problem. It does not prove that local tax exemption is not a contribution, any more than it proves that the Federal subsidy is not a contribution, since the slums are costly to both the Federal Government and the local governments. Federal and local subsidies (whether in one form or another) are both contributions which are necessary in order that rentals may be charged which are sufficiently low to provide decent housing for slum dwellers.

I hope you will pardon this long exposition, but I thought you would be interested in a fuller statement of my views on this vital question. This question is vital to the whole program because I have found that practically all cities are unable to provide the required local contributions except through tax exemption.

Please do not hesitate to call upon me for any additional information.

Faithfully yours,

NATHAN STRAUS, *Administrator.*

Mr. STRAUS. Thanks. May I read these few figures? These are the cost per dwelling unit per family rehoused for land on the various projects. It is not the exact cost, because it is not percentage-wise, but in Austin, Tex., for a slum project—and in each case I am reading the cost of the land for a family rehoused, \$672 in the white project, \$308 in the Negro project, and \$256 in the Mexican project.

Charleston, S. C., a slum site project, cost of land per family rehoused, \$1,375; cost of land per family rehoused on vacant land in the same city, \$261. I think that that is the most dramatic thing we have got; in one case \$1,300 and in the other \$261.

Of course, Congressman, you are entitled to what percentage that is of the total cost, and I will see that you get that tonight. I have it at the office.

I might go on, and these are from typical cities.

In New Orleans, both sites are in the slums, and there, you know, land costs will be considerably higher, because we have to pay, under the American law, for the buildings, too, whereas, under the British law, the Government can, by an order of the Department of Health, go into a slum district, declare it a slum, and buy up those old slum buildings and the land at the value of the land for rehousing purposes only, the value of the buildings, if any, being completely disregarded. We cannot do that here.

I will go on with New Orleans, \$1,518 per family for the white project; \$2,000 per family for the Negro project, and those are both in the slums, obviously.

Syracuse, N. Y., white and Negro projects, cost of land for each family rehoused, \$1,938. That obviously is a slum project.

In Youngstown, Ohio, there is a project that is half slum and half vacant, and there obviously you have sort of a midway between the two; the cost of land for each family rehoused is \$617.

I have some more, but I judge you do not want any more.

Mr. TRANSUE. Have you any for New York City?

Mr. BROWN. Give us your figures on New York City.

Mr. STRAUS. Yes. The one project, a white project which is on slum land, partially on slum land, half one and half the other, is \$795 per family rehoused, and the other project, which is also partly slum—these are not real slums, but sort of blighted districts in New York, and I am of course familiar with them, is \$1,074 per family rehoused.

Mr. WILLIAMS. Let me ask you this: Among the contracts that you have made so far, have you made any in which the Federal contribution is less than 3½ percent?

Mr. STRAUS. No, sir.

Mr. WILLIAMS. Then you have fixed that as a fixed figure? Of course, you cannot go above that.

Mr. STRAUS. Congressman, I do not like to say yes to that, although perhaps the answer is yes. I do not like it, that we have fixed a fixed figure. We have endeavored to find out, first of all, in all of these projects what the slum dwellers do actually pay in the neighborhood. That is the beginning. That is where we start. Now, if the figure that they have arrived at is such as to make it possible to rehouse those slum dwellers by means of this bill, using the maximum subsidy, we go ahead. If it is possible to rehouse those slum dwellers at less than the maximum subsidy, I promise you that I won't grant the maximum. If in any case it is impossible to rehouse the slum dwellers even with the use of the maximum subsidy, perhaps we won't go ahead at all.

In the Austin, Tex., subsidy, we worked 2 months to hit the rents, not that somebody guessed at, but that a P. W. A. survey showed were paid by Mexicans and Negroes, and I told them that unless we could hit those rentals we would not go ahead with it. After a lot of work on those projects, we have got the rents down——

Mr. WILLIAMS. Will you tell me this——

Mr. STRAUS. Wait a minute. The rentals on the Austin project range from \$2.66 on the Negro, \$2.70 on the Mexican, to \$2.84 on the whites per room per month. Those are amazingly low.

Mr. WILLIAMS. That system has resulted in differential rents in different parts of the country; has it not?

Mr. STRAUS. Yes, sir.

Mr. WILLIAMS. This would be a rent differential between the South, West, and the East?

Mr. STRAUS. It has maintained in each community, and I hope it will as long as I am Administrator, rents on the new projects which the slum dwellers in that particular area are able to pay and are now paying.

Mr. WILLIAMS. What effect do you think that will have on the wage differential?

Mr. STRAUS. We are asked in the act to pay, and we must pay the prevailing rate of wages. Further than that, I have not made a study of it, and I hesitate to get myself into a discussion about things that I know nothing about, because one of my pet abominations in this life is a man who talks something he knows nothing about.

Mr. WILLIAMS. I am talking not about the wage differential that will be used in the construction work, but of the effect that it will have upon a general wage-and-hour bill.

Mr. STRAUS. I do not know. I do not know anything about that. You tell me.

Mr. WILLIAMS. Here is the point that I am making. It looks to me that if the Government goes into an activity here which establishes a rent differential in the different sections of this country, there might be some justification for a wage differential.

Mr. STRAUS. I am not going to answer that. I do not know anything about it. I just do not know.

Mr. WILLIAMS. All right.

Now, you have earmarkings here, according to your statement, of over 300 million, I believe?

Mr. STRAUS. Yes, sir.

Mr. WILLIAMS. And you have others coming in?

Mr. STRAUS. Right; every day.

Mr. WILLIAMS. What does that earmarking mean? Does that mean that these local authorities have already made arrangements to go into operation?

Mr. STRAUS. Let me answer the Congressman. What does an earmarking mean?

Mr. WILLIAMS. Yes, sir.

Mr. STRAUS. First of all, there is nothing in the act providing for an earmarking. The earmarking was an invention of the Administrator.

Mr. WILLIAMS. I understand that, too.

Mr. STRAUS. It was made solely to accomplish a purpose and that purpose was to enable the local housing authority to get to work.

Now, if you wish to get a picture of how it works, you will see what an earmarking is in about 3 seconds.

Mr. WILLIAMS. I understand——

Mr. STRAUS (continuing). A local housing authority comes to us and says that they want to have a contract for a loan. They have then no land. They have very little local interest. They have not yet got a technically equipped staff to go ahead and make the necessary surveys, but they say to me, "Mr. Administrator, if you will set aside some definite sum of money for us, we can go back to our locality and arouse enough local interest so that we will come to you in 30 or 60 days ready to ask you for a loan."

Mr. WILLIAMS. Then they have been successful?

Mr. STRAUS. Yes, sir.

Mr. WILLIAMS. Why change that plan?

Mr. STRAUS. I do not want to change it.

Mr. WILLIAMS. They have been working and have been able to raise that 10 percent?

Mr. STRAUS. I want to say to you, most emphatically, yes.

Mr. KOPPLEMANN. May I——

Mr. STRAUS (continuing). I am not asking for this amendment for any other reason than the one I told you the first day, that this act would work as you have written it, and we have overcome some of the big difficulties in the way of minimum costs equivalent to demolition. It will work, but it will work faster, if you want to get more people to work quickly, if we can lend the larger amount.

Mr. KOPPLEMANN. Permit me——

Mr. WILLIAMS. Just a moment.

These different cities that have made these applications have assured you that if you will set aside the money, they will make arrangements to comply with the act.

Mr. STRAUS. They have not assured me; no, sir.

Mr. WILLIAMS. They have not done that?

Mr. STRAUS. No, sir. An earmarking does not mean assurance.

Mr. WILLIAMS. I think that the 10 percent contribution, the way it has been handled under this law, does not amount to anything. If that is what it is, that was never my intention, so far as this legislation was concerned. I think I am the one who wrote that provision in there, and it was my intention, when that went in there, that it was to be a local contribution from outside sources.

Mr. STRAUS. You mean an outright gift?

Mr. WILLIAMS. Yes.

Mr. STRAUS. May I ask the Congressman whether he meant that the 10 percent should be, in his belief——

Mr. WILLIAMS. Well——

Mr. STRAUS (interposing). I do not want to misquote him—an outright gift? Is that right?

Mr. WILLIAMS. I meant that they had to put up 10 percent of the cost of the project——

Mr. STRAUS. As a gift, or grant?

Mr. WILLIAMS. Oh, yes.

Mr. STRAUS. I am not trying to catch you.

Mr. WILLIAMS. By the city.

Mr. STRAUS. By the city?

Mr. WILLIAMS. Yes; and we discussed that question——

Mr. STRAUS. Excuse me, but——

Mr. WILLIAMS. We discussed that very proposition before this committee at that time, and Mayor LaGuardia and others were here, and I did not know that cities could not make that contribution.

Mr. McKEOUGH. You wanted to make it 25 percent.

Mr. WILLIAMS. It was just clearly the intention of this committee that that should be done by the local authorities, and——

Mr. STRAUS (interposing). I am very anxious to get one thing on the record. Would you mind my asking the question, or stating the fact you thought? May I put this in the record, that the Congressman stated that it was his understanding of the bill that the 10-percent local contribution was to be an outright gift, and not a loan?

Mr. WILLIAMS. I will say again that it was my understanding that it was the intention of this legislation that there should be a local contribution, originally, of 10 percent put up on the cost of the project by the local authorities—city, county, or State.

Mr. PATMAN. You mean, just give it absolutely away, a gift, no strings tied to it?

Mr. WILLIAMS. I do mean that. They, the cities or State, could raise the money and donate it, with the provision that it will be paid back to those from whom they borrowed.

Mr. STRAUS. That is what they are doing, Congressman, just what you stated; they have raised it as a loan, and paid it back.

Mr. FORD. I would like to get a chance to clear that up.

Mr. STRAUS. I am very anxious to get through.

Mr. WILLIAMS. Is there any question about that, that that was the intention under the grant provision?

Mr. STRAUS. I have been trying to get an answer in ever since immediately after the Congressman's statement.

Mr. WILLIAMS. Well, all right.

Mr. STRAUS. There is no provision under the method of financing that we are discussing now for either a Federal capital grant or a local capital grant. I, obviously, know nothing of the discussions in the committee, but will state that there is no provision in the law at present either for a Federal capital grant or a local capital grant under that method of financing which we have been and still are discussing.

I will go further and I will say that if you had written into the law or ever do write into the law a provision for a local capital grant, you can forget your housing program; you can forget your program of rehousing slum districts until every State constitution is revised to enable cities to go beyond their debt limit, and I am sure that that will be beyond

the lifetime of most of us here. That was not in the act, and if it were in the act, you would not have an act at all.

Mr. WILLIAMS. That was the intention, as I say, according to my understanding of it, and the argument was made then that you are making now, that if we put that in there, the cities could not raise the money and would not do it.

Mr. McKEOUGH. Mr. Williams, may I offer an observation right there in connection with that discussion?

When the original bill was before the committee, it is my recollection because of the inability of cities to do more by reason of their bonded debt being already reached, the maximum, that in lieu of the cash contribution they would take services in the way of community services. Is that correct?

Mr. WILLIAMS. No. That is for the annual contribution only.

Mr. FORD. Here is what my understanding is. Mr. Straus, does this make it clear? Here is a proposition of a million dollars. The local community is supposed to put up \$100,000, or 10 percent. The way the local community gets that money is that their housing authority goes out and sells \$100,000 worth of bonds.

Mr. STRAUS. Right.

Mr. FORD. Now, what security have the people that bought the \$100,000 worth of bonds?

Mr. STRAUS. The security——

Mr. FORD. Just a moment.

Mr. STRAUS. Excuse me.

Mr. FORD. Let me see if I have it right. Their security is a lien on the net income of the project, after interest, amortization, operations, and reserves are provided for?

Mr. STRAUS. After interest. Leave out the word "amortization." After operations and interest?

Mr. FORD. And reserves?

Mr. STRAUS. And reserves.

Mr. FORD. All right. That is what it provided for?

Mr. STRAUS. Correct.

Mr. FORD. Now, how is that money coming in? What is the income that they have a lien on?

Mr. STRAUS. They have a lien——

Mr. FORD (continuing). The income is the \$35,000 a year that comes from the Federal Government?

Mr. STRAUS. They have a second lien there.

Mr. FORD. There is \$35,000 a year that comes from the Federal Government. There is the local contribution of approximately \$7,000.

Mr. STRAUS. Go ahead.

Mr. FORD. Then they have that rental from the property, the rental income—and there you are.

Mr. STRAUS. There you are—right.

Mr. FORD. If they have sufficient confidence in their local housing authority that that proposition will enable them to recover their money in a period of, say, 20 years, and receive 4 or 5 percent?

Mr. STRAUS. No; not 4 or 5 percent. Three and a half percent is the most interest I have allowed anywhere. Three percent, usually.

Mr. FORD. That is the only priority they have, that they will get their money back earlier than the Federal Government. The Federal

Government gets its money in 60 years, and they get theirs in 20 or 30, or whatever you agree on. That is the only priority they have?

Mr. STRAUS. That is right; only we have never gone as high as 20 years. Fifteen years. That is a complete statement of the situation as it is in most of the cities.

Mr. WILLIAMS. One or two more questions, and then I will quit.

Mr. KOPPLEMANN. May I ask a question on the 10 percent?

Mr. WILLIAMS. Let me ask you this: Under this law as it is now, how much, in dollar contributions, can the Federal Government make?

Mr. STRAUS. Under the present law?

Mr. WILLIAMS. Yes.

Mr. STRAUS. It is stepped up. It is \$7,500,000 and it finally goes up to \$20,000,000.

Mr. WILLIAMS. Annually?

Mr. STRAUS. Yes.

Mr. WILLIAMS. You are asking, as I understand it, in your bill for \$50,000,000.

Mr. STRAUS. Yes.

Mr. WILLIAMS. Why? I ask that for this reason. As I understood you a while ago, you said that it could not go beyond \$35,000,000.

Mr. STRAUS. The question is, why am I asking for \$50,000,000, when the maximum expense to the Government of the Federal housing loan program is \$35,000,000?

The reason is that I have some hopes that as this program develops, we may be able, as has been done abroad, to interest private capital in coming into it, which would somewhat reduce the amount of the Federal capital needed for a long-time program, and I think that that would give the Members of Congress, and the Treasury, a certain feeling of reassurance that these bonds are good, if you get me, because if private investors are willing to buy them at the low interest rate, they must be good.

In the hope that we may be able to do that, I want a little elbow room. I only need \$35,000,000, but if you give me \$50,000,000, we may be able to accomplish that.

Mr. WILLIAMS. In other words, you would make an annual contribution if it was financed entirely by private capital?

Mr. STRAUS. No; not entirely. But instead of getting 10 percent as now, we may get 20, 30, or 40 percent from private sources.

Mr. WILLIAMS. What objection would there be to an annual contribution if it is financed by private capital? In other words—

Mr. STRAUS. I understand your question perfectly. Your question is, what objection would there be to allowing private capital to put 100 percent of the cost of these projects?

Mr. WILLIAMS. Yes.

Mr. STRAUS. There would be none, Congressman, if we were able to get private capital on that scale into the project at a low enough interest rate.

You gentlemen do not understand, or I do not think some of you do, how the interest rate affects rents. We have got to keep our interest rate down. We cannot afford to pay 5, 6, or 7 percent. The Government is willing to lend money at 3 percent or less. We ought to pay not more than 3½ percent.

Mr. WILLIAMS. At any rate, that is your reason for wanting the additional amount over the possible \$35,000,000?

Mr. STRAUS. That is right. I want to have it, if you will give it to me.

Mr. WILLIAMS. And you are also asking for an additional bond issue here of \$500,000,000?

Mr. STRAUS. Yes.

Mr. WILLIAMS. You want that now. The other is stepped up, too, isn't it?

Mr. STRAUS. You see, we have today \$300,000,000, with another \$200,000,000 becoming available after next July 1st. I am asking for \$500,000,000 additional now.

Mr. WILLIAMS. Have you \$300,000,000 available now?

Mr. STRAUS. Yes, sir.

Mr. WILLIAMS. But there is \$200,000,000 coming after July 1938?

Mr. STRAUS. 1939.

I made a misstatement. Counsel has just corrected me. Actually, as of this date, we have only \$200,000,000. I am constantly thinking in terms of \$300,000,000, because I am making contracts now and the payments, you know, won't be necessary until after July 1st.

Mr. WILLIAMS. You will have \$200,000,000 after July 1?

Mr. STRAUS. Two hundred million dollars after July 1, or \$300,000,000 total; and after July 1, 1939, we will have an additional \$200,000,000.

Mr. WILLIAMS. That is my recollection.

Mr. KOPPLEMANN. Now, Mr. Straus, with reference to the 10-percent discussion, and for the benefit of Mr. Williams, whom I respect very highly, let me set forth the situation as it exists, particularly in Connecticut. A committee of philanthropic organizations, social agencies, organized and unorganized labor groups, called upon our mayor for the appointment of a local housing administration, on the ground that my city could not provide this 10-percent contribution.

Mr. WILLIAMS. They thought it was 10 percent, didn't they?

Mr. KOPPLEMANN. Yes.

Mr. WILLIAMS. Surely.

Mr. PATMAN. The contribution?

Mr. KOPPLEMANN. Now——

Mr. STRAUS. May I interrupt you? There never has been any thought in my community that it was a 10-percent contribution?

Mr. KOPPLEMANN. Not in the community, no; but on the statement of the mayor. He refused to appoint such a committee, stating that the law of the State of Connecticut did not permit it, and they passed a peculiar act with reference to this Federal measure, in the Legislature of Connecticut, providing that on any loans made in excess of the 90 percent that was loaned by the Government that percent must be had from the Federal Government. There were no other means permitted to a local housing organization, committee, or whatever you want to name them. The result was that that stopped any contracts, and a great many applications had been made, or are in process of being made, but they are estopped by our State law.

A committee called upon the Governor and asked him to call a special session of the legislature, and he refused to do that. The result in our State is that we have no possible chance to get the benefit of this act, unless the proposed amendment as offered to this committee now is accepted by the committee and the Congress.

Mr. REILLY. Can your city give tax exemption?

Mr. KOPPLEMANN. I believe it can.

Mr. STRAUS. The answer is "yes."

Mr. TRANSUE. You are no worse off than a great many others.

Mr. KOPPLEMANN. That is right.

Mr. WILLIAMS. You are no worse off than they are in Missouri.

Mr. KOPPLEMANN. I mentioned Connecticut as an example of the situation that probably exists in a great many other States, and I want that to go in the record as a reason for the adoption of this amendment.

Mr. REILLY. Mr. Straus, can you come back tomorrow?

Mr. STRAUS. Surely, if you want me to come.

Mr. PATMAN. How near through are we? Do we want to finish tomorrow?

Mr. REILLY. I do not know. It depends on when we get through.

(Thereupon, at 12:02 p. m., an adjournment was taken until Wednesday morning, May 4, 1938, at 10:30 o'clock.)

AMENDMENTS TO UNITED STATES HOUSING ACT OF 1937

WEDNESDAY, MAY 4, 1938

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Michael K. Reilly presiding.

The following members of the committee were also present: Messrs. Williams, Spence, Farley, Kopplemann, Ford, Brown, Patman, McKeough, Evans, Transue, Luce, Gamble.

Mr. REILLY. The committee will be in order.

STATEMENT OF NATHAN STRAUS—Resumed

Mr. REILLY. Mr. Straus, I hold in my hand a copy of the Washington Herald of May 4. Under the heading "Merry Go Round" there is a write-up about the allotments for construction of houses and the clearing of slums in some of the southern cities. The statement is made that in this particular case the object is to assist northern industries in emigrating to the South.

What have you to say about that?

Mr. PATMAN. What city do you refer to, Mr. Chairman?

Mr. REILLY. Gadsden.

Mr. PATMAN. Gadsden, Ala.?

Mr. REILLY. Yes.

Mr. STRAUS. Gadsden, Ala., and Akron, Ohio; the statement concerned a contrast of the two.

The contention of the article is—I read it this morning—that because the allocation or earmarking for Gadsden is in proportion to its population larger than the earmarking for Akron, there is some sinister intent.

Now, the relation of the amount of earmarking to the population is determined by a number of factors, but the extent of slums in the city and, more important than that, the limitations of the act.

We cannot give each individual State more than an earmarking of \$50,000,000, and in some of the States, of which that is one, we are up against pretty nearly that limit. Therefore, in States like Ohio and New York and Pennsylvania we cannot give the cities as much as they would be entitled to were they in other States.

So far as assisting the rubber industry is concerned—perhaps the chairman has not noticed that he says that we are assisting the rubber industry to move to Gadsden from Akron—that must be for the new plant that the Goodyear Rubber Co. is going to establish to make rubber doughnuts and rubber pretzels; that must be the plant to which he has reference.

Mr. REILLY. What truth is there in the statement? Is the rubber company going down there?

Mr. STRAUS. Congressman, I do not know anything about the statement. I did not think it was worthy of a serious answer. I have not the slightest idea where the information comes from or what it is all about or anything else. I read it this morning, as you did, and I smiled and passed on.

Mr. PATMAN. You certainly did not have anything like that in mind in making the allotment?

Mr. STRAUS. I honestly do not think it is worthy of any comment. If, every time a columnist is going to make a crack—

Mr. PATMAN. I do not think so.

Mr. STRAUS. As to why we go to some particular city, we would have nothing else to do. We have not denied any city that showed us slums and would like to remove those slums, the benefits of the act. And as I read the act, that is the intent of the Congress. That is the spirit in which we are carrying it out.

Mr. REILLY. What makes me ask concerning that situation particularly is this. There is no city in my district of 20,000 or 25,000 or 30,000 population that would have any use for a \$900,000 slum-clearance project. I do not know of any other cities in the country of such small size that are entitled to any such appropriation to clean up slums. Up until recently it has not been necessary to appropriate for small towns. We have had only one city in the State of Wisconsin—Milwaukee—that has got any appropriation for the clearance of slums.

Mr. STRAUS. I can only repeat as to the intent of the act, that it was not to be confined solely to the larger cities but, on the contrary, we were to spread its benefits as widely as possible.

And I want to repeat that—whether I am wrong or whether I am right—that is the spirit in which the act has been administered.

Mr. FORD. If you follow the debate in the House, you will find that that was very much emphasized.

Mr. REILLY. Are you going to build on new ground or on some slum area in Gadsden?

Mr. STRAUS. Gadsden, Ala., is one of the cities, sir, for which earmarkings only have been made. In those cities, by the terms of the earmarking—and I can send you a copy of the letter that we write to these people—it is specifically stated that no specific site or plan is approved. That is why it is an earmarking, and not a contract.

Mr. REILLY. Do they not submit their program, to indicate what they are going to do?

Mr. STRAUS. No, sir; they do not. All they do in a case like that is to prove to us that they have slums and that they have need for this program; that they have a duly constituted housing authority technically qualified to do business. And if they come to us and prove that, and we have money left in that State, we give them an earmarking. And then the work begins. It takes 2 months, sometimes it has taken 3 months, before we have written a contract.

Mr. REILLY. Mr. Luce, have you any questions?

Mr. LUCE. Mr. Straus, I want to thank you for the financial statement you have put at our command, which makes it possible to understand much better the whole situation. The one headed "Financial Analysis of Annual and Local Costs, Etc." I found valuable for making some calculations which seem to me of importance and interest.

You used the terms "economic rent" and "social rent" in your statement; economic rent, as I understand it, being the rent that would be necessary if the enterprise were conducted by a private individual for purposes of ordinary gain and social rent being the rent that you contemplate getting, with the social conditions paramount.

I find, according to your figures, you estimate the economic rent of a five-room house to be \$607.20 a year. That is the rent that a private real-estate investor would find necessary to get to reimburse him and give him a reasonable profit.

You contemplate, however, furnishing low-cost houses for a social rent of \$249 a year. That is for a five-room house, at the average cost of a thousand dollars a room.

And I observe in the statement freshly aid before us this morning, you take that same basis for estimate, \$1,000 for construction and \$250 for land. I am not sure whether the \$250 is multiplied by five or not, in order to compute it for a five-room house.

Mr. LUCE. Or a five-room apartment. I am going to ignore that, although it would make a showing, if included, somewhat more serious than that which I already find.

Mr. STRAUS. Congressman, if I may interrupt you there. The price of \$250 for land is, in all the figures I have given you, per dwelling unit, not per room.

Mr. LUCE. Per dwelling unit?

Mr. STRAUS. Just a minute, Congressman. Let me check that up, because I do not want to make a misstatement on this; it is important.

What was your figure again, Mr. Congressman—the land figure that you have taken?

Mr. LUCE. Upon your statement of this morning, the heading is, "\$800,000 rooms, at \$1,000 for construction and \$250 for land."

Mr. STRAUS. I beg your pardon, sir; you are absolutely right. That is \$1,000 per room construction and \$250 per room for land. Your statement is correct and I was wrong.

Mr. LUCE. Then I should have to add on five times \$250, or \$1,250?

Mr. STRAUS. Yes, sir; that is correct.

Mr. LUCE. If we have occasion to use the figures later on, I will refigure them, as it would make the showing still more serious.

Now, last year, the W. P. A. basing its inquiry on 1936 prices and investigating in 59 cities, found that a four-person manual laborer's family needs \$1,261 a year for basic maintenance. The proportion of income that should be used for housing, for rents, is estimated variously. I have at my command several of the figures that have been given on that. As nearly as I can make out, 18 percent is probably what should be allotted for housing.

Mr. STRAUS. Congressman, would you mind if I interrupt, or would you prefer not to be interrupted?

Mr. LUCE. I do not care; go ahead.

Mr. STRAUS. Because your figure is much too low for these lower income groups. It runs as high as 30 percent and 40 percent and we consider ourselves fortunate when we can keep within the neighborhood of 20 percent or 23 percent.

Mr. LUCE. That makes the figure still more serious.

Mr. STRAUS. I do not know what the figures you have will show. I am trying to help you get the facts.

Mr. LUCE. I am leading up to that. Now, assuming for the moment that what the P. W. A. found as to these manual laborers in 59 cities, was accurate, if 18 percent were used for housing, that would be \$226.98 a year.

Now, the economic rent of \$607.20 a year would be the rent normally and usually paid from an income of \$3,317. Therefore the housing that you propose to furnish is that which would be naturally and normally used and paid for by families with an income of \$3,317.

Then you are going to dispossess families that have an income of less than \$1,261 a year. Manifestly, none of the persons you dispossess will be accommodated under this new housing proposal, because it is impossible to conceive that they can now pay the rent that could normally be paid by families with an income of \$3,317 a year.

A family with an outgo of \$1,261 a year should pay \$226.98 for rent, which would be \$18.91 a month.

Now, returning to the figures I used in starting this statement. I find that while economic rent is \$607.20 and the social rent is \$249, subtracting one from the other leaves a subsidy, a grant, if you please, of \$358.20 to the families that will occupy your new construction; \$358 per year grant to families with incomes of over \$3,000 per year.

Now, taking a concrete case—and I take it at random, but use the same basis I spoke of the other day—take the case of Johnson City, Tenn.

You plan in Johnson City, Tenn., to dispossess 60 families, more or less, now occupying what is represented to you as a slum or a blighted area. You propose to replace them with 60 families having incomes of over \$3,000 a year.

Will you please make clear to me, the moral, the ethical justification for subsidizing 60 of the families in Johnson City? When you do subsidize them, you immediately break down the rent rates of the remaining approximately 5,000 families. You favor 60 families and you hurt the real estate occupied by 5,000 families.

At the same time you throw, not on the street, but you throw on the town, 60 families who are now able to occupy and pay for the tenements or shacks or hovels, whatever they may be, in which they live. Their income will not permit them to live in anything else. If it did, they would. They are living in shacks and hovels because God made them unable to earn more. It perhaps is the right doctrine which prevails in Russia that we should give each according to his needs, and not according to what he produces. But assume that we continue the practice of the rest of the world, of paying men in accordance with what they produce, there is no reason to expect that a dispossessed family will earn any more than they do now or live in any better quarters than they do now. They cannot afford it. Manifestly, if they could afford it, they would. It is the history, it is the observation of all that men get as good houses as they can afford.

Now, where is your social gain in continuing those 60 families who are dispossessed in the same type of houses that they have occupied previously, and perhaps creating a new slum, by the process of allowing 60 new families to come in there and live at a subsidy of \$358 a year?

Mr. STRAUS. Mr. Chairman, let me first of all clarify these figures so far as I am able to and so far as I understand them.

The social rents which we are discussing—I have made this calculation just now—is \$4.15 per room per month. If we multiply that by four rooms, which would seem to be a fair, normal average, we get a rental of \$16.60 per dwelling unit. If you multiply that by 12 for the 12 months of the year, you receive a rental figure of \$199.20 a year.

A rental of \$200 a year is fair and reasonable for a family with an income of \$800 to \$850 per year.

We are rehousing under this program families with incomes between \$600—I would say that is the minimum limit, perhaps \$550 a year—to a maximum of \$950 to \$1,000 a year. Those roughly are the limits within which this program is working.

I want to come back now, after those figures, to the other statement. If I understood the Congressman correctly, he stated that God made these families unable to earn more; was that correct?

Mr. LUCE. That is it.

Mr. STRAUS. That philosophy, which presumes that God made people unable to earn more than a certain amount is wholly repugnant to me, and, I believe, is repugnant to all of those who have labored on the housing program. That same argument was used in the *laissez faire* years of the eighteenth century in England to justify 12 hours a day and 14 hours a day of work by children from 6 to 10 years of age in the cotton mills of Lancashire. That same argument was used prior to the French Revolution to permit people to live like animals in central Europe.

I do not believe personally, for what my own opinion would be worth, that God ever intended human beings, created in his image, to live in slums. However, that, I realize, is rather far afield.

More specifically and more directly addressing myself to the concrete aspects of the problem. You, sir, made the implication—in fact, the statement—that there was something of Russia or communistic in this housing program. It so happens that one of the poorest rehousing jobs done anywhere has been done, so far as my knowledge is concerned, in Russia.

The countries that have done the outstanding rehousing jobs are conspicuously Sweden, Holland, Switzerland, and, above all, Great Britain. I do not think anyone would contend that those nations are tinted with communism. On the contrary, we are accustomed to thinking of them as the strongholds of republicanism, private enterprise, and democracy.

Those nations are pushing forward on the philosophy and on the theory, which I ventured to state yesterday, that the rehousing of slum dwellers and the subsidies incidental thereto constitute, not a contribution to the families immediately benefited, but rather a contribution to the well-being of the State as a whole.

That, sir, is the only ground on which we can justify the relatively high cost of rehousing one slum family, just as it is the only ground on which we can justify the relatively high cost of educating one poor child.

The figures which we have presented and which I believe are dependable show that we will, under this legislation which you enacted, be able actually to rehouse slum dwellers, and rehouse them decently amid surroundings that will not become slums. And I want to em-

phasize that the program is addressed and is addressed solely to those low-income families not on relief, who have incomes between \$550 and \$600 as the low limit, and between \$950 and \$1,000 as the upper limit.

Mr. LUCE. In the first place, I would point out to you that I said nothing in commendation of any system anywhere, but was talking about the facts of the case. As to Russia, I was simply pointing out that Russia is accepting or started to accept and is now abandoning the theory of furnishing to each according to his needs. That theory has failed even in the countries of our own time that have made the most earnest attempts to apply it.

Now, coming back to the figures. Taking your own figures, just as you have laid them before us, I, with the utmost care, have made the computations to which I have called your attention. And that I was justified in so doing I would again repeat is shown by the statement this morning where you base your computation at 800,000 rooms at \$1,000 for construction and \$250 for land. Those are your figures, not mine:

Mr. STRAUS. That is correct.

Mr. LUCE. I took your figures as the basis of calculations, and I think the results show what I want.

You have left me in doubt by what you have said previously and what you are now saying in the matter of rehousing. You gave us to understand that you meant to furnish proper housing for all dispossessed families. You have not yet shown us how you contemplate doing that, at a lower cost than you are going to give. My illustration was that of provision for 60 families with a project allotment of \$300,000.

May I ask if you intend to place the dispossessed 60 families in houses of the new scale, at what you call the social cost, or whether you propose to put them in houses of economic cost?

Mr. STRAUS. Mr. Chairman, there is never any attempt in any housing program of which I know, to allocate the particular families to the particular houses built. The object is rather looking to the social benefits by eliminating slums and providing new quarters, at least equal in number, for rentals which slum dwellers in that community, in that general neighborhood, in that city, have paid.

I would like to emphasize to the Congressman in that respect—and I believe it is important—that nothing which we are here doing is new, or novel, or unaccustomed, or strange, except to some of us in America who are not wholly familiar with the housing movement abroad.

These principles are tried; these principles are tested; these principles have been successfully used abroad.

Mr. LUCE. That is not my question, sir; if you will pardon me. I would like to get one fact at a time into my head.

Mr. STRAUS. Yes, sir.

Mr. LUCE. Returning to my question with the specific illustration: John Jones lives in a shack and contributes to the appearance of the blighted area. You want to improve it. So you say, "John Jones, you move." Where is he going?

Mr. STRAUS. It depends on what John Jones earns. If John Jones occupies an insanitary shack and is on relief, then the city police power will close up that shack as should have been done long ago, and as it would have done would that not create an intolerable shortage of housing.

If John Jones, on the other hand, is a member of a family having an income, which is the average for slum dwellers in that neighborhood—approximately between \$600 and \$1,000—provision for John Jones is being made in the new projects to be built.

But when a new school is put up, or a new fire house, it is not directly addressed to some particular 60 families. It is an attempt to meet the needs of the neighborhood.

Housing, in another sphere, if it is successfully conducted, does the same thing.

Mr. LUCE. Now, I have reached the point where you indicate your intention to take a slum dweller with an income of \$600 to \$900 a year and put him in quarters that would normally be occupied by a man with an income of \$3,317 a year. He has an income of \$600 to \$900 a year. You feel obligated to furnish him a home, a decent home. You are going to put him in the new house, in quarters that, if there were five rooms in the dwelling—and that is the basis that you have yourself used; I did not use the figure "four rooms," I used five rooms because you used a five-room basis—you are going to put this man with an income of \$600 to \$900 a year into quarters that would normally be occupied by a man with an income of \$3,317 a year.

What is the social or ethical justification for that?

Mr. STRAUS. Mr. Chairman, in the first place I would like to point out that we did use a 4-room basis—I just verified that by asking—in all of these figures. I do not know why we suddenly changed to 5, but standard housing practice the world over is to go by a 4-room basis, not that that is particularly more right than a 5-room basis, but for the poorer family, you are better able to solve your problem in using that, and we invariably, in all our calculations, have used it.

However, you might say that is immaterial. The real question, as I understand it, is how can we rehouse these poor slum families in the building that would normally be occupied by a relatively high income group, and the answer to that question, and to my mind the perfectly overwhelming answer to it is, that you are including the cost of the new dwelling as though it were a cost arrived at wholly independently of the purposes and provisions of the act.

That cost is dependent upon certain factors which have nothing to do with the ordinary home when private industry builds a house. May I be specific?

The bill specifically provides that the houses must be built at the prevailing wage rate. Much of the building today is done, as you know, not at the prevailing wage rate. That is certainly a factor in increasing costs.

Moreover, the provisions of the bill provide, and they must provide to accomplish its objects, that the building be done so as to destroy the slums, and in many instances, as I read off yesterday, and you have before you a statement on the subject this morning, the land costs far more than it would cost if it was a private man building his own home or having his own home built for him on vacant land.

We have a third provision which tends to make the costs of these buildings somewhat high, and that is the provision that the buildings must last 60 years, so that we can amortize them over a longer period and thereby achieve the lower rentals.

Mr. LUCE. I realize all that, sir. That does not bear, I respectfully submit, on the point that I am raising. When I find that the median

income of the toilers in this country is somewhere about \$1,600 a year, that is to say, that half the people are earning less than \$1,600 and half more, without bringing in the question whether the rooms that they are to occupy should be rented for \$3,300 or \$3,000 or \$2,700 or \$2,400, I simply find myself unable to see the social justification of taking 60 families out of perhaps the 3,000 with more than average income in a small city and giving them a preferred status in the matter of housing cost.

I am not talking about the millionaires, or those with large incomes, but I am talking about the great masses of our people who live in homes that cost from \$4,000 to \$5,000. I cannot understand the social or moral justification of favoring the man who cannot produce as much as his neighbor, whether God has made it so, or however it came about—I did not mean anything irreverent in the matter, I am simply looking at human nature—I cannot see why it is desirable to subsidize a minute part of a city's population at the expense of all of the rest. I am confining myself just that one point.

May I ask you if you think the importance of cleaning out these slums is so great that we ought to institute the policy of subsidy for a minute part of the population?

Mr. STRAUS. Congressman, I will attempt to confine myself just as closely to the point, which is whether I believe that subsidy is justified to, as you phrase it, the man who cannot produce, in order to clean out the slums, and whether the cleaning out of the slums is important enough to justify that expenditure.

Personally I would answer unqualifiedly yes to both questions. I think that it is far less important to get into fine-spun theory as to whether this subsidy is in conformity with certain other fine-spun theories, than it is to use the means at our disposal to eliminate these slums and provide decent housing for the slum dwellers elsewhere.

I am not sufficiently convinced of my own wisdom or even of the wisdom of the legislators to be able to determine what the ultimate implications of every one of our acts may be in terms of what is going to happen many years from now as a result of our action.

I am, however, sufficiently satisfied, and that again must be housing theory, that it is a feasible thing to destroy the slums of the cities and rehouse slum dwellers decently by means of subsidies and by means of a method tried and tested abroad, that I am ready unqualifiedly to assert my belief in the soundness of that principle. I am more interested in taking human beings out of miserable hovels today than I am in testing the theory by which they are taken out of them in the light of certain preconceived notions as to the future of society which I may rightly or wrongly entertain.

Mr. LUCE. I submit, sir, that I have advanced no fine-spun theories, that I have used nothing but facts as contained in your own figures and in the figures of the Works Progress Administration, and that I have attempted at least to confine myself to a hard-headed, practical Yankee point of view.

I am not looking at the ultimate result, but at the instant result in, for example, Johnson City, in view of the fact that you have come before us with a billion dollar program, and are asking us to add \$100,000,000 to the contingent debt of the Government, when the public debt is already close to the calamity point.

For one, again, as a man of affairs, and I have been such all my life, I view with great alarm all proposals to make additions to the public debt, seeing the imminent danger of the collapse of Government credit and the consequent inflation that will follow.

So, in view of the seriousness of your proposal in its instant effect, I am wondering why we should at this moment add to the obligations of the United States, and I am backed in that by my personal opinion that the set-up that you are following is unnecessarily burdensome and that, instead of expansion, there ought to be contraction.

With that in view, sir, I have submitted the conclusions from your own figures. Of course, I shall leave to the judgment of the committee or to the House, to determine whether I am sound or not.

Mr. STRAUS. Mr. Chairman, I would like to presume upon the good nature of the committee, that has been very long suffering, by reading a few sentences from a book. It will take me about 3 or 4 minutes, and it seems to me to have the answer——

Mr. REILLY. Before you begin to read that, right along Mr. Luce's question——

Mr. STRAUS. This is the answer to Mr. Luce.

Mr. REILLY. Just wait a minute.

This committee is not opposed to taking people out of the slums, but I think a great many of the members of the committee are opposed to the idea of putting slum dwellers in homes better than 75 percent of the American people are living in.

That is the issue.

Mr. PATMAN. Is that a true statement? Is the statement true, that you are placing them in homes better than 75 percent of the people have?

Mr. REILLY. That is absolutely true. Right down in Austin, Tex., those people that are going to go into these new buildings will be in homes better than 75 percent of the remainder of the people in Austin will live in.

Mr. PATMAN. What about the Nation as a whole?

Mr. REILLY. I am not talking about the Nation as a whole.

Mr. PATMAN. Your statement is incorrect. I know Austin, Tex.

Mr. REILLY. Seventy-five percent of the people that pay for their own homes or pay their own rent have homes not as good as those who will pay \$2.78 per room per month under this program.

Mr. PATMAN. I believe that your premise is incorrect.

Mr. REILLY. I don't.

Mr. PATMAN. In the first place, in Austin, Tex., a very small percentage of the people live in homes like the slum dwellers live in, and the homes that these people will have under this project will not be better than 75 percent of the homes in that city. I happen to know that the gentleman's statement in that case is incorrect. Some other city I would not know about, but I do know about Austin, Tex.

Mr. REILLY. I think the statement was made at the hearing here a year ago, and I think it is true, that these homes are better than 75 percent of the homes that the American people live in. That is the issue. It is not the question of the feasibility of taking men out of slums, but the question is, how far are you going to take them out, and where will you house them?

Mr. FORD. Might I make an observation there, Mr. Chairman?

Assuming that the figures are correct, which I am doubtful of, the taxes that they pay at the present time are one of the factors in the rent that they pay, or what their house costs, and I will venture the assumption that 25 percent of the taxes paid in cities for health, sanitation, medical care, and so forth, comes directly by reason, where there are large slums, of the tremendous police, health, and other types of services that have to be rendered in those blighted areas.

Mr. REILLY. That applies largely to the large cities.

Mr. FORD. Yes, and to small cities the same way.

Would you say that that was a fair statement, Mr. Straus, or am I exaggerating a little on that?

Mr. STRAUS. I would like to have the statement repeated, because I did not listen carefully enough to be able to answer you.

Mr. PATMAN. Notice the 75 percent part.

Mr. STRAUS. That these houses are better than 75 percent of the population of the United States?

Mr. PATMAN. That the people who occupy these houses live in better places than 75 percent of the people.

Mr. STRAUS. Your statement is absolutely untrue.

Mr. WILLIAMS. What is the percent?

Mr. STRAUS. Let us get Congressman Ford's statement.

Mr. FORD. That the taxes that accrue in cities where large slum areas exist are to the extent of 25 percent the result of police services, sanitary protection, fire protection, and other services that accrue as a result of them.

Mr. STRAUS. Pardon me, but I do not know whether exactly that figure is correct. You are correct in this, that repeated surveys made at various cities, and that is the basis of it, and that basis is correct, of the United States have shown that whereas in a normal business or residential community the amount of taxes collected is in excess of the cost of those school services, health services, sanitary services and nursing services, that in the case of the slum districts the amount collected in taxes is less than one-quarter of the actual cost to the city for those services, which, further, never takes into consideration, because it cannot, the heritage of delinquency and crime and later hospitalization that results from people growing up in those neighborhoods.

Particularly on the delinquency question, the truant of today is the delinquent of tomorrow. The delinquent of today is the criminal of tomorrow, and they grow up largely in those districts.

Mr. TRANSUE. These same cities have done little or nothing about getting rid of those slums, have they, for 25 years past?

Mr. STRAUS. Fifty.

Mr. WILLIAMS. That being true, I come back to the question in my mind all the time, and that is, that being true, if this is an economic saving to the city, why should not the city make an original contribution?

Mr. STRAUS. The only way that I know of how to answer is the same reason as in the story where the fellow was saying that the way for the woodchuck to get away from the duck is to climb a tree, and the fellow listening said, "Wait a minute; woodchucks don't climb trees"—and the answer was, "This woodchuck had to."

That is the only answer that I know of to give you. Theoretically the community should do a great deal, but if you want to get results,

you cannot go to communities overburdened with debt and expect them to do anything about it.

Mr. WILLIAMS. What examination have you made of the financial condition of the various cities in this country?

Mr. STRAUS. I have made a financial investigation, sir, sufficient to convince me that not only over the last 6 months, but years before that, practically every city is up to its debt limit——

Mr. WILLIAMS. How do you answer this——

Mr. STRAUS. Excuse me; let me finish—and the very fact that slums continue to exist is the best evidence that the cities cannot get rid of them with their own financing.

Mr. WILLIAMS. Do you know, for instance, what the total debt of Boston is?

Mr. STRAUS. I do not pretend to be able to memorize the total debt, but I know that if you will ask the mayor of Boston, he will tell you that he is up to the limit of debt.

Mr. WILLIAMS. Of course, he would come down and want the Government to do that by itself.

Mr. STRAUS. No; he said that they are up to the debt limit. Let us settle that question. Let us find out whether Boston can afford to build any rehousing. If it can it would be doing its own rehousing.

Mr. WILLIAMS. I for one will insist on an investigation on that question before we ever pass this bill.

Mr. PATMAN. Which question?

Mr. WILLIAMS. Of the ability of cities to make contributions.

I know that this bill was up last year, and if you want to be guided by the discussion of it on the floor of the House, I refer you to that discussion, to show you that it was the positive intention of Congress that these cities should make an original contribution, or an original donation, to the extent of 10 percent of the cost of the project.

I know that for the reason that there was an amendment offered in the House to strike out the 85-percent project which was in the House bill—and the 90 percent was finally put in—so as not to require local donations at all, and the arguments that were made at that time are the same arguments that you are now making, that the cities of this country were not in a position to raise that amount of money. It so happened that, in opposition to that amendment, I made a talk on the floor, and I refer you to that, and that amendment was rejected.

I simply cite that to show that I know it was the intention of Congress that that should be done. Whether that is right or wrong, that is what this bill was passed for.

Mr. LUCE. May I interpolate one thing there?

Mr. WILLIAMS. Yes.

Mr. LUCE. In Massachusetts, Boston having been referred to, it is possible at any session of the legislature, and we have annual sessions of the legislature, to enact legislation allowing cities to exceed the debt limit, and it is done constantly. So that that is no valid objection to the bill.

And while I am speaking, may I say that in the chart you did not intend to include schools as one of the results of the slums. Children are being educated whether they live in the slums or not.

Mr. STRAUS. On that point, what I attempted to say was that the cost of the municipal services, of which schools is one, is not paid for by any tax receipts from the slums, although obviously your state-

ment is correct, and I did not intend to say that the cost of schooling was higher in the slums than elsewhere. It is merely that less taxes are collected.

Mr. WILLIAMS. But you have——

Mr. STRAUS. May I answer you, because you asked me a distinct question, or you made a statement, that the intent of the bill as evidenced by the debates in Congress was to have this 10 percent by a donation from the localities.

I want to submit in all fairness to the committee that the only thing that I can be guided by is what is written into the act. As an indication of the meaning of that, of course one looks up congressional debate, but when the act says that we may loan up to 90 percent of the cost of the project, I do not know what there is in the act that should enable me to say that the other 10 percent has to be a donation.

Mr. WILLIAMS. I will tell you.

Mr. STRAUS. Excuse me, please.

Mr. WILLIAMS. All right.

Mr. STRAUS. Because that is only half of my answer. There is nothing in the act which would substantiate the Congressman's statement. There is nothing in the act which would enable me to deviate from the provisions of that act.

I would like to add, just immediately following that, and excuse me for going on, that if any such provision were written into the act, you would effectually kill the housing program, just like that.

Mr. WILLIAMS. That is what we have been told by these representatives of the cities, and that is what we were told last year, and that is why I know it was the intention of this committee, and the intention of Congress, to put that provision in the law, because they were down here lobbying at that time against that provision being placed in there, and that we did place in there.

Mr. PATMAN. Will the gentleman yield for a suggestion?

You take the Farm Security Administration. That Administration is doing for rural homes what this is doing for the cities. None of that money is put up by the locality. The county does not put up a dime of it. The city does not put up a dime of it.

Mr. WILLIAMS. You mean, making loans?

Mr. PATMAN. Making loans to tenant farmers.

Mr. WILLIAMS. Of course, if they are making loans on the property of an individual, that is a different proposition entirely.

Mr. PATMAN. Then, in addition to that, they are furnishing them help.

Mr. WILLIAMS. But they are loans.

Mr. PATMAN. Yes; they are loans.

Mr. SPENCE. We discussed the other day the question of tax remissions and tax exemptions, to give the cities credit for the tax remissions and tax exemptions, and I have read the case of *Spahn v. Stewart*, in the State of Kentucky, in which the court says:

On both the dominant contentions here urged we are much persuaded by the able opinion of Justice Crouch of the New York Court of Appeals in *New York Housing Authority v. Andrew Muller, et al.*, *supra*. The act there questioned was similar to the act here attacked. Only two contentions were urged, or at least considered by the Court, and these two are common to the case here, i. e., power to condemn and exemption of the bonds from taxation, both there as here, bringing up the question as to whether the intended use of the property was of such public nature as to permit the condemnation and exemption in face of a similar

state constitutional prohibition, and the fourteenth amendment to the Constitution of the United States. We quote:

"Slum areas are the breeding places of disease which may take toll, not only from the denizens, but from the inhabitants of the entire city and State. Juvenile delinquency and crime and immorality are born there, find protection and flourish. Enormous economic losses result directly from the unnecessary expenditure of public funds to maintain health and hospital services for afflicted slum dwellers and to war against crime and immorality. * * * Concededly, these are matters of public concern. *Adler v. Deegan*, 251 N. Y. 477, 167 N. E. 175. Time and gain in familiar cases needing no citation, the use by the legislature of the power of taxation and of the public power in dealing with the evils of the slums have been upheld. Now, in continuation of a battle which, if not entirely lost, is far from won, the legislature has resorted to the last of the trinity of the sovereign power by giving to a city agency the power of eminent domain."

Quoting from *Matter of Ryers*, 72 N. Y. 1, 28 Am. Rep. 88, the New York Court said:

"To take for the promotion of the public health is a public purpose. Over many years and in a multitude of cases the courts have vainly attempted to define comprehensively the concept of a public use and to formulate a universal test. They have found here, as elsewhere, that to formulate anything ultimate, even though it were possible, would in an inevitably changing world be unwise if not futile. Lacking a controlling precedent we deal with the question as it presents itself on the facts at the present point of time. * * * It is also said that since the taking to provide apartments to be rented to a class designated as persons of 'low income' or to be leased or sold to limited dividend corporations the use is private and not public. This objection disregards the primary purpose of the legislation. Use of a proposed structure facility or service by everybody and anybody is one of the abandoned universal tests of public use. *Mr. Vernon Woodbury Cotton Duck Co. v. Alabama, I. P. Co. Highland Boy Mining Co.; Rindge v. Los Angeles County; Fallbrook Irrigation District v. Brandley*, all *supra*."

In commenting on the *New York Case* (105 A. L. R.) we do not overlook *U. S. v. Certain Lands*, 78 Fed. (2) 684, or *U. S. v. Certain Lands*, 12 Fed. Sup. 345, and 9 Fed. Sup. 684, in which the circuit courts of appeals held that the Federal Government could not enter a State and condemn lands for housing purposes, because, "The State and Federal Governments are district sovereignties, and what is a public use under one may not be a public use in another." In short, the court apparently of the opinion that the use was for public purposes, held that the Federal Government could not condemn private property except for purely Federal governmental purposes. The Attorney General of the United States recognized the propriety of these opinions, since certiorari in each was dismissed on his motion in the United States Supreme Court. The objectionable feature was abandoned by a more recent act of Congress, U. S. C. A., title 40-421.

From what we have above said it is discernible that the property intended to be acquired here by condemnation, if such become necessary, is to be used for a public purpose. It follows that such condemnation, if undertaken, will not violate either the fourteenth amendment to the Federal Constitution nor any section of our own. This conclusion we think should dispose of the contention that the bonds issued in furtherance of the property cannot be exempted from taxation. If the purpose is public, they are in express terms exempted by provisions of our Constitution.

Now, the Constitution of Kentucky says that there shall be exempt from taxation, public property used for public purposes, and any legislative enactment would mean a finding of fact and putting it in that category, because this property was, by its very nature, exempted from taxation, and therefore the question that I want to settle is whether or not the housing authority may some time use the argument that there is no consideration going from the State or city, because the property in its nature is exempt from taxation and nothing that the State or city has done has exempted it from taxation.

If this were put on the tax rolls without any enactment of the legislature, they could have brought an injunction suit and had it stricken from the tax rolls, because it is not taxable, and I want the housing authority to specifically say that they will not make any such contention as that.

Mr. STRAUS. Mr. Chairman, so far as I am able to get this legal point, and I will point out again that I am not a lawyer, I would like to get down to facts.

There are today five limited dividend projects under the United States Housing Authority which were ready under the P. W. A., built by P. W. A. loans. Those limited-dividend projects are in various cities, and they are not tax exempt. The taxes actually levied against them, and we have had this calculated, amount to \$2.09 per room per month. That is, by reason of the fact that they are not tax exempt, the city is collecting that much of a tax against the property.

It seems to me reasonable and sound financially to make the statement that if, as and when that tax is remitted, it constitutes a local annual contribution of precisely that amount.

So far as the initial amount of the contribution is concerned, which has repeatedly been brought up, I want to state again what you gentlemen well know, that this program was not based upon the belief that there should be any original capital grants. There is a Federal capital loan of 90 percent, and a local capital loan of 10 percent. There are Federal annual grants and local annual grants.

Mr. REILLY. That local capital loan is issued by the housing authority, and the Government pays the cost of it, so that there is absolutely no contribution or loan from the city under the program as you are now administering it.

Mr. STRAUS. That is the issue of bonds by the local authority, taken up 90 percent by the United States Housing Administration, and taken up 10 percent by others, by private bankers—

Mr. REILLY. It is not private. It is from this housing authority that sells these bonds, and the United States Treasury has to pay the subsidy to take care of those bonds. So, absolutely the only contribution or assistance that you are getting from the city is that tax exemption.

Mr. STRAUS. I do not know—I suppose that you could define it. A local housing authority puts up an issue of bonds covering the cost of the project. It then disposes of those bonds up to 90 percent of them to the United States Housing Authority, and as to the balance, as and when they see fit, most of the bonds are sold to private investors, and some of them to State and city funds.

Mr. REILLY. No liability of the city is involved.

Mr. STRAUS. Liability? No; I hope not. It does not pledge the credit of the city.

Mr. REILLY. The city is not responsible for those bonds, or any outlay at all.

Mr. STRAUS. The city is not responsible for the Housing Authority bonds.

Mr. REILLY. So that is all that you get under your program, what you get from tax exemption.

Mr. KOPPLEMANN. Do you mean that that other 10 percent is guaranteed by the Government, and the Government would have to pay it.

Mr. REILLY. The project has to pay the interest, and the Government has to supply the deficiency.

Mr. SPENCE. I would like to ask you this: This case held that this is public property, used for public purposes, and therefore it is exempt

from taxation, and it could not have held that it was exempt from taxation under any other theory.

Mr. STRAUS. Congressman, you are getting me into a deep legal question. Would you mind if counsel answers you?

Mr. SPENCE. The constitution of the State of Kentucky provides, and this is the exact language, "that there shall be exempt from taxation, public property used for public purposes."

It is not discretionary. It is not optional. It is mandatory, so this property was exempt from taxation if it is public property used for public purposes, and there is no action on the part of the State or of the city necessary to make it exempt from taxation.

Mr. STRAUS. I do not get the question.

Mr. SPENCE. If the State had enacted a law saying that it was subject to taxation, they could have set that statute aside as being unconstitutional and in contravention of this section of the statute.

Of course, I want my cities to get the benefit of this act, but I say that the housing authority might in the future take the position, "Well, there is no consideration from the city to the housing authority, because this property was exempt in its very nature, and there was no remission or exemption of taxation."

I know that you do not feel that way, but it may be that some future administrator may say that that is a nullity.

Mr. STRAUS. I do not fully get the legal point, to be honest with you. May I ask Mr. Keyserling to answer you? Do you mind if Mr. Keyserling answers you?

Mr. KEYSERLING. There were two questions involved in that case, first the question of taking land for a public purpose through condemnation proceedings, and second the question of whether it is free from taxation under the constitution and laws of the State.

Of course, those are two entirely separate questions, because you may condemn land for a railroad, and when you condemn that land the courts have to determine that the condemnation is for a public purpose, and while that is a public purpose, it is not one which exempts the property from taxation.

So that you have a second question in your State, quite apart from the question of public purpose, as to whether or not the properties are taxable. The question of the taxability of the lands of these low-rent housing projects varies greatly from State to State. There are one or two States where there may be a specific constitutional provision which exempts these properties from taxation, or the court may so hold. In fact, there are a few cases where the constitutions have been specifically amended to allow these properties to be exempt from taxation, but in the normal case, in the overwhelming majority of the States, these properties, even when held by local public-housing authorities, are subject to taxation unless they are exempted by specific statutory enactment, and there has been such specific statutory enactment in something like 30 States.

Furthermore, this specific statutory enactment has provisions in it which allow the Housing Authority to make payments in lieu of taxes to the local housing authority. In most cases some such payments are made, and there has not been any question as to the constitutionality of those statutes.

In specific answer to your question about the consideration, all these contract which are made between the United States Housing

Authority and the local housing authorities have a specific provision in them that over the whole life of the project, the local authorities will furnish all services, all normal municipal services for the whole 60 years, without collecting any payments in lieu of taxes.

So, even if the statutes were repealed, or if the courts were to construe under the Constitution these projects as not having a normal or natural right to tax exemption, they would still get free local services under the terms of the contract.

Mr. SPENCE. But that would not give them the same rights as if you could give them credit for tax exemption. In this case the court specifically says that the purpose is public and that they are by express terms exempted by the provisions of the Constitution. Now, then, if you give the construction that you do to it, then the cities could only get credit for services and the tax remissions and tax exemptions would not be considered at all, would they, as a consideration?

Mr. KEYSERLING. That decision turns upon a particular construction of the Kentucky constitution and the Kentucky statute.

Mr. SPENCE. I am interested in that, because that is my State.

Mr. KEYSERLING. Insofar as there was a statute granting tax exemption there is concerned, the only question which the court had to determine was whether or not that statute was constitutional, and anything that it may have said as to whether or not these properties would have been exempt from taxation if there were no statute is dictum.

Mr. SPENCE. But it says that the statute gives them no right at all, that the right of tax exemption is already there, and that the statute is merely declaratory of something that already existed, and that you would have no right to tax them.

Now, there are two projects in Kentucky. One is in my own district, and one in Louisville, and if you are going along with this, I want those people to get these credits for tax exemption and tax remission, and the reason I bring up this point I want to be sure that they will get it.

Mr. KEYSERLING. Isn't there also this answer to your question, if you are discussing the merits, that the tax exemption as a form of local subsidy continues in whatever way that tax exemption is granted, whether under the provisions of the Constitution or whether granted under the provisions of the statute. Suppose that you had a State where neither the Constitution nor the laws of the State granted tax exemption. In one case the people of the State thought it was desirable to enact a statute specifically granting tax exemption to the project. In another State the people felt that the constitutionality of such a statute might be brought into question, and they amended their constitution and grant tax exemption to a project.

In one case you have a constitutional amendment, and in the other case you have a statute, but the legal effect is the same.

Mr. SPENCE. But the condition was already there before you went. Nobody has ever changed any condition. They were exempt at the time you went there.

Now, if it were optional in the Constitution that they might be exempted, and the State exempted you, then there might be a consideration, but the condition of tax exemption was a preexisting condition, and I cannot see where there is any consideration. You

did not need any legislation. You did not need any action by the State for tax exemption, because you had it under the Constitution:

Mr. STRAUS. Mr. Chairman, would it be agreeable to the chairman and to the committee, and to the Congressman, to allow us to endeavor to work that rather detailed situation affecting one of the 48 States out to the best of our ability? I will try to learn something about it, and you are teaching me.

Mr. FORD. May I make an observation?

Mr. WILLIAMS. Now, let me ask you this—

Mr. FORD. Let me make this one observation.

What Mr. Spence fears, as I see it, is this, that no future administrator may say, in the case of Kentucky, that it has given credit for \$100,000 in the form of tax exemption, and that that property was originally tax exempt, and therefore they will want to go and collect that money.

Mr. STRAUS. We will have to work that out, to satisfy him.

Mr. FORD. That is not legal language, but a layman's statement.

Mr. STRAUS. I am going to ask the liberty of showing you—I was going through my files on the work I did on housing abroad, because I thought it might interest the committee, and I picked a few things out, and this is a rather interesting notice—I have two copies—of what England, not a Bolshevik country, is doing toward eliminating not only its slums, but overcrowding.

They have gone beyond the elimination of slums and eliminated overcrowding by the erection of buildings which are decent and fit for human habitation, and on that point I want you to allow me, if you are generous enough to do it, to read just two or three paragraphs into the record, because although they were written 2 years ago, they seem to me to apply so well today.

This book, gentlemen—I wish many of you would get it—was written by Sir Ernest Simon, on *The Rebuilding of Manchester*, one of the worst cities for slums that England had before he and his wife started the work, and which is now perhaps one of the outstanding communities in the entire world. It is a marvelous book on the whole housing subject, not written from any theoretical ground, but practical, and he says:

The housing question has become one of the chief political issues of the day; public opinion was thoroughly roused, and it became essential for the Government to take some action. Dr. Addison, who was Minister of Health at the time, carried through the Housing Act of 1919, which initiated two very important, indeed revolutionary, changes.

First. The local authorities were made responsible for meeting the housing needs of their areas. From that time onward the Manchester City Council were responsible for seeing that there was an adequate supply of houses, and for building these houses themselves if nobody else did so.

Second. It was decided that a subsidy should be given to enable good houses to be let at a reasonable rent. Further, this subsidy was not given to private enterprise, but was confined to the local authorities.

Whereas before the war they were built almost entirely by private enterprise without any form of assistance, they were now to be built by the local authorities with the aid of such subsidies as might prove to be necessary.

The Manchester City Council appointed in 1919 a special housing committee which produced an ambitious program of building 17,000 houses in 4 years. But in practice they were met with tremendous difficulties. It was necessary first to create an organization required for building houses; to appoint a housing director and provide him with a staff; when the staff was appointed they had to gain experience before things ran smoothly. All this took time.

Then he goes on to tell you that this little city of 750,000 bought sufficient land, 2,500 acres, to rehouse 100,000 people, over one-eighth of their population.

Mr. WILLIAMS. Who did that?

Mr. STRAUS. Manchester, the great industrial city of Manchester, originally one of the worst slums in England, in the world, and now the garden spot of the world.

Mr. WILLIAMS. I understood you to say that the city did that.

Mr. STRAUS. By precisely the system that we are using here, loans guaranteed by the Federal Government, and annual subsidies, shared in part by the Federal Government and by the locality. It is exactly the system of the Wagner-Steagall Act.

Mr. McKEOUGH. What was the difference in percentage between the Federal Government and the locality?

Mr. STRAUS. In a general way, the Federal Government furnished about two-thirds of the subsidy, and about one-third was furnished locally.

Mr. McKEOUGH. Was there any protest from those that paid the tax?

Mr. STRAUS. I think there were lots of protests.

Mr. McKEOUGH. And were those that protested originally still protesting after the achievement was accomplished?

Mr. STRAUS. No, sir. I asked last year, while in England, why a conservative government was continuing and expanding the housing program initiated by a labor government; and a member of Parliament, of whom I asked that question, laughed and he said, "Mr. Straus, a government that dropped its subsidized housing program would lose just as soon in this country as a government that dropped its program of providing pure water or providing free education."

Mr. WILLIAMS. Mr. Straus—

Mr. STRAUS. I would like to resume quoting from this book. It will take but 2 minutes.

Our plans for the future are being made today at a moment of depression and pessimism. Not only is the whole world uncertain of its economic future owing to fears of war, to industrial depression, and unemployment, but Manchester in particular is suffering on account of the drift of industry to the south and the decrease of exports.

Mr. PATMAN. Read that again, that part about the drift of industry to the South.

Mr. STRAUS (reading):

But Manchester in particular is suffering on account of the drift of industry to the South and the decrease of exports.

Mr. TRANSUE. Mr. Straus—

Mr. STRAUS. Let me finish.

But taking a long view we must remember how immensely richer we are than we were a hundred years ago; we must remember that industry is becoming more productive at the rate of 1 to 2 percent per annum, that research, invention, and mass production are going ahead today faster than ever. If so, that it is inevitable that in another fifty or a hundred years we shall be as much richer than we are today, as we are richer today than we were a hundred years ago. We must show a reasonable optimism in our planning.

Mr. J. L. Hammond says: "In the high movements of his history man has answered the beauty of nature with the beauty of his cities."

Mr. WILLIAMS. When was that book written?

Mr. STRAUS. The book was written in 1935.

Mr. WILLIAMS. Let me ask you something in connection with this chart that you brought up. I do not see anything on it—and if it is there, I have overlooked it—about the financial set-up of the housing authority in England.

Mr. STRAUS. I can give you all that. I happened to pick out that poster, which I thought was dramatic. We have the full facts of the English program and, in fact, I made a report on that to the mayor of New York, as a special emissary, which is now a little bit stale, about 5 years old, but I will bring it up to date.

Mr. WILLIAMS. All right, if it is not too much work.

Mr. STRAUS. You cannot do it all in a day. It may take a number of days.

Mr. REILLY. Can you be here tomorrow?

Mr. STRAUS. Surely; any time you want me to.

Mr. REILLY. I think the committee would like to have something on the English system, and particularly the part that the Federal Government plays in financing it.

Mr. McKEOUGH. Before we adjourn, I would like to make an observation.

Is your scope of discretionary activity wide enough to permit you to supply copies of that book to each Congressman?

Mr. STRAUS. May I do that? I think that it would make a big hit with Sir Simon, to write to him and ask him to send them over. There is a man who, with his wife, has spent his life in clearing up the slum sites.

On the English subsidy plan, the figures as a whole are not in dollars and cents, and shillings are eliminated, and that is because an electrician in England gets about 35 cents an hour, and here \$1.75, is it, or \$2, so all the figures are scaled down to such a degree that the whole thing may look different. The proportion, however, of the local share and the national share very closely approximate what we have been able to achieve.

Mr. McKEOUGH. Isn't it true that the Federal taxes in England are in keeping with that, and everything else?

Mr. STRAUS. Yes; the whole thing, the taxes, the rent, the cost of houses, the cost of land, are all on a much lower scale. Their figures are smaller.

Mr. McKEOUGH. But relative?

Mr. STRAUS. The whole thing is relative, relative to wages and everything else.

Mr. LUCE. I shall be unable to be here tomorrow, having another committee meeting scheduled, and before we adjourn I would like to have about 2 minutes.

Mr. TRANSUE. Mr. Chairman——

Mr. REILLY. You will be here tomorrow, Mr. Transue?

Mr. TRANSUE. I want Mr. Straus to look up something.

Mr. REILLY. When Mr. Luce gets through.

Mr. LUCE. Mr. Straus, I would not have you think that I, or any other member of the committee, so far as I know, is objecting to the purposes of this legislation. My questions were wholly addressed to the question of whether, in order to accomplish those purposes, it is necessary to subsidize persons who are well to do and who are in the upper half of the population of the country. I have no desire to

question at all the objects you have in mind, but wholly to question the necessity of subsidizing well-to-do people in order to accomplish that purpose.

That is all.

Mr. STRAUS. I would like to say on that point, and it would only take 30 seconds, that I am wholly in agreement with the Congressman. I believe it would be highly objectionable to subsidize people in the higher income group, and it is specifically forbidden by the terms of the act.

Mr. TRANSUE. Mr. Straus, I want to call your attention to one of the columnists that accused your organization of subsidizing the rubber industry.

Mr. STRAUS. We had that before you came in.

Mr. TRANSUE. That has all been answered in the record?

Mr. STRAUS. I do not know, but I did my best.

Mr. PATMAN. Since Mr. Williams brought up the question of the ability of the cities to make contributions, I suggest that the information be brought up, if possible, about the ability of the cities to do so.

Mr. REILLY. The committee will adjourn until half past 10 tomorrow.

(Thereupon, at 12:15 p. m., an adjournment was taken until Thursday morning, May 5, 1938, at 10:30 o'clock.)

AMENDMENTS TO UNITED STATES HOUSING ACT OF 1937

THURSDAY, MAY 5, 1938

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met to resume consideration of H. R. 10417 at 10:45 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly; Mr. Williams; Mr. Spence; Mr. Kopplemann; Mr. Ford; Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Transue, Mr. Barry, Mr. Fish, Mr. Luce, Mr. White, Mr. Crawford and Mr. Gamble.

Mr. GOLDSBOROUGH. The committee will please come to order.

Mr. Straus, I am very sorry that it has been impossible for me to be here for the last 3 days. But I understand that the situation which exists here now is this, that the Congress thought that it was passing a law which would require a 10-percent payment on the cost of the project, and I am informed that the construction of the act followed by the Housing Authority respecting this 10 percent is just as if it had been eliminated. If that is the situation, it seems to me that we ought to go into it very thoroughly, because I do not think that this committee has ever given the wrong impression to the House of what it was doing.

This may all have been gone over in the last few days, but I would like to know just how this 10-percent contribution has been avoided, what legal manner has been used, and in saying that I do not question the legality of anything that has been done, because I do not know about it, but I would like to know about it.

STATEMENT OF HON. NATHAN STRAUS—Resumed

Mr. STRAUS. Congressman, a great many hours were spent in discussing just that, with various committee members doing the questioning.

Mr. GOLDSBOROUGH. Then I can look at the record and read it.

Mr. STRAUS. Let me say to you that I do not want in any sense of the word to have you feel that I would not be glad to repeat it to you.

In essence, the bill merely provides that up to 90 percent of the cost of the project may be loaned by the Federal Government. There is no mention of how the additional 10 percent is to be raised, and the presumption is that it may be raised locally by a loan. There is no provision anywhere in the bill, under this method of financing, for a capital grant or subsidy, either by the Federal Government or by the locality. The grants or subsidies are made on an annual basis.

Now, as I say, we spent a good deal of the time, and a good deal of the discussion—

Mr. GOLDSBOROUGH. There is only one thing that I want to ask you.

Mr. STRAUS. Surely, sir.

Mr. GOLDSBOROUGH. You can tell me this in 2 or 3 minutes. I have been told by members of the committee within the last 10 minutes that the way this 10 percent is raised is by the issuance on the part of the local authority of bonds guaranteed by the Government. Now, there may be something in the act which justifies it, but if there is anything in the act which justifies it, this committee, the House, the Senate, and the President did not know anything about it, and we passed something that we did not know we were passing.

Mr. STRAUS. The 10 percent locally is issued by the local housing authorities and sold by them as they see fit, while the 90 percent is sold to the Federal Government. As regards the 10 percent—

Mr. GOLDSBOROUGH. What is there in—

Mr. STRAUS (interposing). You have asked me a question, and I would like to answer it; and counsel will correct me if I am wrong, because it is a legal question, but I think that I can answer it. That is as to whether the 10 percent is guaranteed by the Federal Government.

As I understand the 10 percent, it is not guaranteed by the Federal Government, unless I misunderstand it; and I wish you would correct me, Counsel, if I am wrong. The 10 percent which is sold locally is sold on only the rents and so much of the subsidies as may remain after the payment of interest on the Federal part of the subsidy, to insure the payment of interest and principal on that 10 percent.

Mr. REILLY. Don't we figure the Federal subsidy on the interest and the amortization payments you have to make on that 10 percent?

Mr. STRAUS. No. The Federal subsidy is not figured on the basis of interest or amortization. The Federal subsidy is figured on the basis of what is necessary in order to achieve rentals which slum dwellers can afford to pay in that district—

Mr. REILLY. Yes; but—

Mr. STRAUS (continuing). As a basis for calculation.

Mr. REILLY. But in that sum is what you have to pay to take care of that 10 percent.

Mr. STRAUS. The maximum amount of the Federal subsidy—that is quite correct; the maximum amount of the Federal subsidy is based upon the entire amount of the cost of the project.

Mr. REILLY. Yes.

Mr. STRAUS. That is correct.

Mr. Chairman, there were only two points on which the committee yesterday asked for further information, and we have covered the ground pretty fully in the 8½ hours that I think I have testified up to yesterday, but there were two points on which the committee asked for additional information—

Mr. WILLIAMS. Before you go into that, I have some questions further along the line that you have been talking about.

Mr. STRAUS. May I—the only thing I wish to do is to put certain things into the record, to have it complete, and I know that I have to ask your permission to do that.

One is the general explanation of the proposed amendment to the United States Housing Act. I want to read these by titles, and then I want to get them into the record.

Mr. GOLDSBOROUGH. If there is no objection, that may be done.

Mr. STRAUS. The one is entitled "General Explanation of Proposed Amendments to the United States Housing Act of 1937," and is dated April 28, 1938. (Exhibit X.)

EXHIBIT X

APRIL 28, 1938.

I. GENERAL EXPLANATION OF PROPOSED AMENDMENTS TO UNITED STATES HOUSING ACT OF 1937

(1) United States Housing Authority has earmarked \$310,998,000 for local housing projects and has already received requests for additional earmarkings which could consume the balance of the \$500,000,000 loan authorizations provided for in the United States Housing Act of 1937.

After the earmarking of funds and the further development of plans for projects, United States Housing Authority makes loans and annual contributions contracts with the local authorities. Two groups of loan and annual contributions contracts have been entered into totaling \$53,493,000 in loans for projects estimated to cost about \$60,000,000. The first group (entered into on March 17) included loan contracts totaling \$16,836,000 with five local housing authorities for projects estimated to cost \$18,700,000; and the second group (entered into last week) included loan contracts totaling \$36,657,000 with four local housing authorities for projects estimated to cost \$40,728,625.

Almost immediately upon entering into contracts, money begins to flow. In fact, by the end of this week some payments will have been made under each of the loan contracts covered by the first group and substantial steps will have been taken toward making payments under the contracts covered by the second group. Earmarking, contracting, and actual payments are now proceeding at a rapidly accelerating pace because all preliminary details, policies, and questions of local procedures have been thoroughly cleared away.

(2) Despite the large earmarkings, United States Housing Authority is strictly limited in its power actually to get money into circulation because of the following factors:

(a) Under the act, United States Housing Authority can obtain funds for loans only in the amount of \$100,000,000 now and an additional \$200,000,000 after July 1, 1938. In other words, United States Housing Authority will shortly have available for loan expenditures an aggregate amount limited to \$300,000,000. The other \$200,000,000 authorized by the act will not be available for loan expenditures until after July 1, 1939.

(b) Under the act, United States Housing Authority's power to enter into annual contributions contracts now is limited to contracts calling for annual payments aggregating not more than \$5,000,000. After July 1 of this year, United States Housing Authority may enter into additional annual contributions contracts aggregating not more than \$7,500,000 per year. In other words, United States Housing Authority will shortly have the power to enter into annual contributions contracts limited to payments of not more than \$12,500,000 per year. In view of the practical necessity for making annual contributions contracts simultaneously with the contracts for loans, a limitation on the power to enter into annual contributions contracts is also a limitation on the power to enter into loan contracts. This means that despite the fact that United States Housing Authority has the power to enter into \$500,000,000 worth of loan contracts now (although actual loan expenditures would be limited to \$300,000,000 prior to July 1, 1939), the present limitation of \$12,500,000 on the power of United States Housing Authority to enter into annual contributions contracts before July 1, 1939 will scale down the power of the United States Housing Authority to make loan contracts before July 1, 1939 from \$500,000,000 to about \$325,000,000. This means a corresponding decrease in the power to get money into actual circulation.

(c) It must be remembered that, on the average, it takes about 18 months to complete a housing project. At the same time, the initial loan contract must cover the whole cost of the project. Since the rate of expenditures on a project during the course of its construction increases as the construction is prosecuted, a limited program of loans becomes even more limited in terms of money actually spent during the early months of the construction period.

As a result of the operation of these factors, out of the \$500,000,000 which we may earmark, United States Housing Authority is scheduled to enter into loan contracts necessarily limited to \$325,000,000 during time prior to July 1, 1939. With such a restricted base of operations, United States Housing Authority could pour into circulation only \$125,000,000 during the present calendar year.

(3) This scheduled program, particularly the actual circulation of funds, could be tremendously increased by four simple amendments to the United States Housing Act. With these amendments, United States Housing Authority can earmark \$900,000,000,¹ can enter into contracts totaling \$800,000,000, and can actually pour into circulation \$300,000,000—all during the calendar year 1938.

II. SPECIFIC EXPLANATION OF EACH PROPOSED AMENDMENT

First amendment (to sec. 9).—The requirement of 10 percent local participation in the capital loans made to local housing authorities should be removed for the current year in cases where it blocks speedy action in any locality.

Explanation.—Under the present law, local housing authorities take recourse to private lending agencies to borrow 10 percent of the loan for a housing project. Amendment of the law to permit United States Housing Authority to make 100-percent loans would immensely speed up the program by avoiding the delays incident to obtaining the 10 percent from local lending agencies; also, by making projects available to those local housing authorities who are unable to borrow their 10 percent from other sources. At the same time, this proposed amendment would improve rather than diminish the financial security of the Federal Government.

Second amendment (to sec. 10).—The amount of annual contributions contracts authorized (now limited to \$5,000,000 before July 1 of this year, an additional \$7,500,000 before the end of this year, and \$20,000,000 in all) should be increased to \$50,000,000 for this year.

Explanation.—Under the present law, annual contributions contracts can be entered into not in excess of \$5,000,000 before July 1 of this year, an additional \$7,500,000 after July 1 of this year, and an additional \$7,500,000 after July 1, 1939. Since contracts of loan must necessarily be entered into simultaneously with contracts of annual contributions, the strict limitation upon the volume of annual contributions contracts scales down the United States Housing Authority loan contracts to a relatively small and slow schedule. Until July 1, 1939, full advantage could neither be taken of the maximum annual contribution contracts authorized to be entered into under the present act, nor of the maximum amount of loan contracts authorized to be made; consequently, the rate of United States Housing Authority expenditures will be slowed down to \$125,000,000 during this calendar year.

An authorized volume of annual contributions contracts amounting to \$50,000,000 during this year would meet the needs of the proposed expanded program of loan contracts and actual expenditures. This would not involve any additional appropriations, because the actual payment of annual contributions contracted for will not begin until the projects are completed.

This amendment also contains provisions which would aid the resale and marketability of bonds purchased by United States Housing Authority from local housing agencies.

Third amendment (to sec. 20 (a)).—The authorized bond issue to raise money for loan purposes should be raised from \$500,000,000 to \$1,000,000,000.

Explanation.—First, much less money can actually be spent this year than the total loans contracted for, because it generally takes 18 months to complete a project and the loan contracts must necessarily cover the complete construction costs of the projects. Therefore, in order to get \$300,000,000 into circulation this calendar year, United States Housing Authority must necessarily have the authority to plan and make loan contracts on a very much larger basis than the present authorization of \$500,000,000. An analogy is the naval building program, where the length of time required to build ships makes it necessary to have authorizations from Congress for a program much larger than the amount immediately to be spent.

Secondly, the present act makes only \$300,000,000 available to the United States Housing Authority for actual expenditure through loans prior to July 1, 1939.

Finally, the limitation of 10 percent of United States Housing Authority funds to any one State makes a much larger loan authorization than \$500,000,000 necessary, in order to contract and expend funds as rapidly as they can be absorbed in the largest States in which the unemployment situation is most serious, such as New York, Illinois, Pennsylvania, Ohio, and Michigan. These States can each easily absorb approximately double \$50,000,000 in loans this year.

¹ On the basis of a power to enter into \$1,000,000,000 of loan contracts, this would leave \$100,000,000 remaining to be earmarked early in 1939—an amount which should be able to take care of housing authorities not yet organized under existing State legislation and housing authorities to be organized after the enactment of additional State legislation early in 1939.

[NOTE.—Proposed additions are in italic and proposed deletions are enclosed in black brackets]

A BILL To amend the United States Housing Act of 1937

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the United States Housing Act of 1937 be amended as follows:

SEC. 2. Section 9 is amended to read as follows:

"SEC. 9. The Authority may make loans to public housing agencies to assist the development, acquisition, or administration of low-rent-housing or slum-clearance projects by such agencies. Where capital grants are made pursuant to section 11 the total amount of such loans outstanding on any one project and in which the Authority participates shall not exceed the development or acquisition cost of such project less all such capital grants, but in no event shall said loans exceed 90 per centum of such cost. In the case of annual contributions in assistance of low rentals as provided in section 10 the total of such loans outstanding on any one project [and in which the Authority participates] shall not exceed 90 per centum of the development or acquisition cost of such project [.] : *Provided, That where the original contract of loan is entered into before July 1, 1939, and where the Authority obtains satisfactory assurances that construction work can be promptly commenced on the project covered by the loan contract, the total of such loans on any such project may equal the total development cost of the project.* Such loans shall bear interest at such rate not less than the going Federal rate at the time the loan is made, plus one-half of 1 per centum, shall be secured in such manner, and shall be repaid within such period not exceeding sixty years, as may be deemed advisable by the Authority."

SEC. 3. Section 10 is amended by amending subsection (e) and adding a new subsection (f) as follows:

"(e) The Authority is authorized, on and after the date of the enactment of this Act, to enter into contracts which provide for annual contributions aggregating not more than [\$5,000,000 per annum, on or after July 1, 1938, to enter into additional such contracts which provide for annual contributions aggregating not more than \$7,500,000 per annum, and on or after July 1, 1939, to enter into additional such contracts which provide for annual contributions aggregating not more than \$7,500,000] *\$50,000,000 per annum.* Without further authorization from Congress, no new contracts for annual contributions beyond those herein authorized shall be entered into by the Authority. The faith of the United States is solemnly pledged to the payment of all annual contributions contracted for pursuant to this section, and there is hereby authorized to be appropriated in each fiscal year, out of any money in the Treasury not otherwise appropriated, the amounts necessary to provide for such payments.

"(f) *Payments under annual contributions contracts shall be pledged as security for any loan obtained by a public housing agency to assist the development of the housing project to which the annual contributions relate: Provided, that annual contributions shall be used first to apply toward the payment of interest or principal as same mature on any loan due to the Authority from the public housing agency. The term "any loan due to the Authority" as used in this section shall apply to any loan made by the Authority (including any bonds or other evidences of such loan which are resold by the Authority) to assist the development of the project to which the annual contributions relate.*"

SEC. 4. Section 20 (a) is amended to read as follows:

"SEC. 20 (a). The Authority is authorized to issue obligations, in the form of notes, bonds, or otherwise, which it may sell to obtain funds for the purposes of this Act. The Authority may issue such obligations in an amount not to exceed [\$100,000,000 on or after the date of enactment of this Act, an additional amount not to exceed \$200,000,000 on or after July 1, 1938, and an additional amount not to exceed \$200,000,000 on or after July 1, 1939] *\$1,000,000,000.* Such obligations shall be in such forms and denominations, mature within such periods not exceeding sixty years from date of issue, bear such rates of interest not exceeding 4 per centum per annum, be subject to such terms and conditions, and be issued in such manner and sold at such prices as may be prescribed by the Authority, with the approval of the Secretary of the Treasury."

The next is entitled "Financial Analysis of Annual and Total Costs of \$1,000,000,000 Low-Rent Housing and Slum-Clearance Program (800,000 rooms, \$1,000 for construction and \$250 for land)," which we did not date; we should have. It was the day after the other one (Exhibit VIII, hereinabove set forth).

The next is "Effect of Amendment to United States Housing Act of 1937 Allowing Federal Loans up to 100 percent until July 1, 1939" (Exhibit II, hereinabove set forth).

The next is a letter to Congressman Williams, dated May 4, 1938, on various questions of tax exemption, cost of sites, and the like (Exhibit X).

Then a list of the local housing authorities as of May 3, 1938 (Exhibit XI), and then the material which I believe is on your desk this morning, as to municipalities that are unable to furnish a 10-percent capital subsidy (Exhibit XII).

(Exhibits XI and XII are as follows:)

EXHIBIT XI

UNITED STATES HOUSING AUTHORITY—LIST OF LOCAL HOUSING AUTHORITIES AS OF MAY 3, 1938

Alabama:

Andalusia: Andalusia Housing Authority.
Anniston: Anniston Housing Authority.
Birmingham: Housing Authority of the Birmingham district.
Colbert County: Colbert County Housing Authority.
Gadsden: Greater Gadsden Housing Authority.
Mobile: Mobile Housing Board.
Phenix City: Phenix City Housing Authority.
Red Level: Red Level Housing Authority.
Selma: Selma Housing Authority.

California:

Los Angeles County: The Housing Authority of the County of Los Angeles.
Oakland: Oakland Housing Authority.
San Francisco, city and county: The Housing Authority of the City and County of San Francisco.

Connecticut:

Bridgeport: Housing Authority of the City of Bridgeport.
Norwalk: Norwalk Housing Authority.
Waterbury: Waterbury Housing Authority.

Delaware:

Wilmington: Wilmington Housing Authority.

Florida:

Daytona Beach: Daytona Beach Housing Authority.
Jacksonville: Housing Authority of Jacksonville.
Miami: Miami Housing Authority.
Orlando: Housing Authority of the City of Orlando.
Pensacola: The Housing Authority of the City of Pensacola.
Sarasota: Sarasota Housing Authority.
St. Petersburg: The Housing Authority of the City of St. Petersburg.
Tampa: Housing Authority of the City of Tampa.

Georgia:

Athens: Athens Housing Authority.
Augusta: Augusta Housing Authority.
Rome: Housing Authority of the City of Rome.
Savannah: Savannah Housing Authority.

Hawaii: Hawaii Housing Authority.

Illinois:

Alexander County: Alexander County Housing Authority.
Chicago: Chicago Housing Authority.
Gallatin County: Gallatin County Housing Authority.
Peoria: Peoria Housing Authority.
St. Clair County: St. Clair County Housing Board.
Springfield: Springfield Housing Authority.

Indiana:

Alexandria: Alexandria Housing Authority.
Anderson: Anderson Housing Authority.
Bluffton: Bluffton Housing Authority.
Brazil: Brazil Housing Authority.
Decatur: Decatur Housing Authority.

Indiana—Continued.

Delaware County: Delaware County Housing Authority.
 Dunkirk: Dunkirk Housing Authority.
 Fort Wayne: Fort Wayne Housing Authority.
 Greenfield: Greenfield Housing Authority.
 Huntington: The housing authority of the city of Huntington.
 Jeffersonville: Housing authority of Jeffersonville.
 Kokomo: Kokomo Housing Authority.
 Lawrenceburg: Lawrenceburg Housing Authority.
 Marion: Marion Housing Authority.
 Muncie: Muncie Housing Authority.
 New Albany: Housing authority of New Albany.
 Newcastle: Newcastle Housing Authority.
 Richmond: Richmond Housing Authority.
 Vincennes: Housing authority of city of Vincennes.

Kentucky:

Covington: Covington Municipal Housing Commission.
 Frankfort: Frankfort Housing Commission.
 Lexington: Lexington Municipal Housing Commission.
 Louisville: Municipal housing commission.
 Newport: Newport Municipal Housing Commission.

Louisiana:

New Orleans: Housing Authority of New Orleans.

Maryland:

Annapolis: Annapolis Housing Authority.
 Baltimore: Housing Authority of Baltimore city.

Massachusetts:

Boston: Boston Housing Authority.
 Cambridge: Cambridge Housing Authority.
 Chelsea: Chelsea Housing Authority.
 Chicopee: Chicopee Housing Authority.
 Holyoke: Holyoke Housing Authority.
 Lowell: Lowell Housing Authority.
 New Bedford: New Bedford Housing Authority.

Michigan:

Detroit: Detroit Housing Commission.

Mississippi: (Has enabling legislation but no local authorities).**Montana:**

Billings: Billings Housing Authority.

Nebraska:

Omaha: Omaha Housing Authority.

New Jersey:

Asbury Park: Asbury Housing Authority.
 Camden: Camden Housing Authority.
 Montclair: Housing Authority of the Town of Montclair.
 Newark: Newark Housing Authority.
 North Bergen: North Bergen Housing Authority.
 Orange: Orange Housing Authority.

New York:

Buffalo: Buffalo Municipal Housing Authority.
 Lackawanna: Lackawanna Municipal Housing Authority.
 New York City: New York City Housing Authority.
 Port Jervis: Housing Authority of the City of Port Jervis.
 Schenectady: Municipal Housing Authority of City of Schenectady.
 Syracuse: Syracuse Housing Authority.
 Utica: Utica Housing Authority.
 Yonkers: Municipal Housing Authority of the City of Yonkers.

North Carolina:

Wilmington: Housing authority for the city of Wilmington.

Ohio:

Akron: Akron Metropolitan Housing Authority.
 Cincinnati: Cincinnati Metropolitan Housing Authority.
 Cleveland: Cleveland Metropolitan Housing Authority.
 Columbus: Columbus Metropolitan Housing Authority.
 Dayton: Dayton Metropolitan Housing Authority.
 Toledo: Toledo Metropolitan Housing Authority.
 Warren: Warren Metropolitan Housing Authority.
 Youngstown: Youngstown Metropolitan Housing Authority.
 Zanesville: Zanesville Metropolitan Housing Authority.

Pennsylvania:

Allegheny County: Allegheny County Housing Authority.
 Allentown: Allentown Housing Authority.
 Bethlehem: Bethlehem Housing Authority.
 Brackenridge: Brackenridge Housing Authority.
 Chester: Chester Housing Authority.
 Delaware County: Delaware County Housing Authority.
 Erie: Erie Housing Authority.
 Harrisburg: Harrisburg Housing Authority.
 McKean County: McKean County Housing Authority.
 McKeesport: McKeesport Housing Authority.
 Mifflin County: Mifflin County Housing Authority.
 New Kensington: New Kensington Housing Authority.
 Philadelphia: Philadelphia Housing Authority.
 Pittsburgh: Pittsburgh Housing Authority.
 Reading: Reading Municipal Housing Authority.
 Scranton: Scranton Housing Authority.

South Carolina:

Charleston: Charleston Housing Authority.
 Columbia: Columbia Housing Authority.
 Spartanburg: Spartanburg Housing Authority.

Tennessee:

Johnson City: Johnson City Housing Authority.
 Knoxville: Knoxville Housing Authority.
 Memphis: Memphis Housing Authority.

Texas:

Austin: Housing authority of the city of Austin.
 Big Spring: Big Spring Housing Authority.
 Brownville: Brownville Housing Authority.
 Corpus Christi: Corpus Christi Housing Authority.
 Dalls: Dallas Housing Authority.
 El Paso: El Paso Housing Authority.
 Fort Worth: Housing authority of the city of Fort Worth.
 Houston: Houston Housing Authority.
 Pelly: Pelly Housing Authority.
 San Antonio: San Antonio Housing Authority.
 Temple: Temple Housing Authority.
 Waco: Waco Housing Authority.

Virginia: (Enabling legislation to go into effect June 20, 1938).

West Virginia:

Charleston: Charleston Housing Authority.
 Fairmont: Fairmont Housing Authority.
 Huntington: Huntington Housing Authority.
 Keyser: Keyser Housing Authority.
 Martinsburg: Martinsburg Housing Authority.
 Morgantown: Morgantown Housing Authority.
 Mount Hope: Mount Hope Housing Authority.
 Parkersburg: Parkersburg Housing Authority.
 Wheeling: Wheeling Housing Authority.

Wisconsin: Superior: Superior Housing Authority.

Total number of existing local housing authorities, 140.

EXHIBIT XII
MUNICIPALITIES ARE UNABLE TO FURNISH A 10 PERCENT CAPITAL SUBSIDY

There has been considerable interest in the question of local contributions toward the capital cost of housing projects. Approaching this matter from a realistic rather than a theoretical point of view, it is clear that the municipalities in this country (because of their lack of power or their financial condition) are unable to participate in the construction of housing projects by providing capital subsidies in the form of cash or land. The United States Housing Authority has found, from its own experience, that cities are not able to provide this 10 percent as an outright cash subsidy.

This 10 percent can be raised locally through the sale by a local housing authority of part of its bonds. These bonds evidence a loan (in addition to the 90 percent United States Housing Authority loan) payable from the revenues and subsidies

on the housing project. This is the method now being used by all of the local housing authorities in order to raise all or a part of their 10 percent.

However, the raising of this 10 percent necessarily requires time and involves delays. The proposed amendment, therefore, recommends temporary relief from this requirement so as to speed up actual construction. After July 1, 1939, the existing requirement for a 10 percent participation will be automatically reinstated under the terms of the proposed amendment.

In the consideration of the proposed amendment, the question has been raised whether the municipalities can now provide this 10 percent in the form of a subsidy. The United States Housing Authority is convinced that cities are unable to provide these funds as a subsidy. To obtain funds to donate to a housing authority, it would generally be necessary for the municipality to issue and sell its general obligation bonds payable from general taxes.

Unfortunately, the cities do not have the power to issue such bonds. In the 33 States having housing legislation, none of the cities (except in Colorado) have the statutory authority to issue bonds to raise funds for the purpose of donating them to housing authorities. In other words, new legislation would be necessary in all of these States. At this time, the legislatures of only two States are in session. This means that if 10 percent were required as a local capital grant, nothing could be done until the convening of these State legislatures in 1939 or later. As a result, the necessary State legislation could not even be considered (apart from the question of whether it would be enacted) until almost a year from now. In short, if the 10 percent local participation were required in the form of a subsidy, no public housing construction could be expected in this country until 1939 or 1940.

Even then, there would be gloomy prospects for a substantial volume of housing construction, because most municipalities would be unable to obtain or exercise this power of raising 10 percent as a donation toward the development of a housing project. This is due either to their lack of borrowing power under existing debt limitations or to their financial condition.

For your information, there is attached a chart showing the existing constitutional and statutory debt limitations and restrictions. From this chart, it appears that constitutional and statutory debt limitations govern in most municipalities. In 30 States, municipalities and political subdivisions are subject to constitutional debt limitations and in 17 other States they are subject to statutory debt limitations, which are often as unchangeable and long-standing as similar constitutional provisions. It, therefore, appears that virtually all local governments are now operating under some form of debt limitation. It is common knowledge that many of these municipalities have exhausted (or come close to exhausting) their borrowing powers, particularly in view of local relief requirements.

In addition, many State constitutions contain limitations on the amount of local taxes which can be levied. These limitations will often prevent a municipality from issuing additional tax bonds due to the fact that the maximum tax limit has been reached.

It should also be noted that tax obligations of a municipality can generally be issued only after a vote of the people. This would materially delay the commencement of housing construction.

It is all very well to speak of amending these constitutions and limitations in order to increase borrowing power, remove tax restrictions, and to avoid delays in raising the local 10 percent as a subsidy. The process of amendment of constitutions is admittedly very slow and generally impracticable. Such an alternative is certainly out of the question if serious consideration is to be given to expediting housing construction in order to relieve unemployment.

It might also be said that the 10 percent local participation could be in the form of cash. But how many cities have cash lying idle in their treasuries? The practical fact is that such cities do not have the cash, for they have been suffering from increasing demands on city revenues, decreasing tax collections, and the continuing requirements of providing relief.

These same municipalities which are unable to furnish a capital grant are ready and able to provide annual subsidies in the form of tax exemption. This is a form of assistance which is even more effective in achieving the objective of low rentals. If we are to have an effective public housing program in America, we must face practical realities and obtain this form of local subsidy which is the only feasible means of obtaining substantial continuing local donations.

Limitations on local debt—Constitutional and statutory debt limits; general provisions as of Jan. 1, 1936

[In the second column constitutional provisions are indicated by "C" followed by a date or dates referring to the latest revision of the organic law. Where 2 dates are given for 1 State the later date refers to an amendment. The letter "S" is for statutory, referring to what purport to be more or less comprehensive bond acts, and dates refer to the more important acts. In the third column the debt limit is expressed in terms of a percentage of the assessed valuation.]

State	Source and date of limitation	Ordinary debt limits	Units affected	Authority for creating debt	Exceptions to debt limits
Alabama.....	C-1901.....	3½ percent, counties; 6¼ percent, Mobile County; 5 percent, municipal corporations, less than 6,000 population; 10 percent, city of Mobile.	Counties, cities, towns, municipal corporations.	Majority popular vote, excluding special assessment bonds.	Municipal corporations less than 6,000, 3 percent additional for water, gas, lighting, sewers, street improvements; tax loans, special assessments. Counties and school districts, additional indebtedness up to 10 percent; cities and towns, 15 percent additional for municipal water, light, and sewage works.
Arizona.....	C-1912.....	4 percent.....	Counties, cities, towns, school districts.	Majority vote of property taxpayers and owners, for debt over 4 percent.	
Arkansas.....	C-1928, S-1927, S-1931, Special statutes.....	7 percent, school districts; 25 percent, municipal corporations; 5 percent, counties; 15 percent, cities and towns, for public improvements.	All subdivisions.....	Majority popular vote.....	Counties, up to 15 percent, if bond issue includes irrigation improvements, etc.
California.....			Counties, cities, towns, districts.	Two-thirds popular vote.....	Cities and towns, water supply; judgments, special assessments, local improvements; authorization by State tax commissioner or three-fourths popular vote.
Colorado.....	C-1895, S-1922.....	3½, 5 percent, school districts; 3 percent, cities and towns; ¾ percent, counties; with assessed valuation over \$5,000,000; ¾ percent, other counties.	do.....	Majority popular vote, excluding certain re-funding bonds.	Water, gas, electric light, relief, refunding purposes.
Connecticut.....	S-1930.....	5 percent, grand list.....	Towns and municipalities.	Towns, popular vote; elsewhere, governing body.	
Delaware.....	Special statutes.....	5 percent.....	School districts and special school districts.	Popular vote.....	
Florida.....	C-1930, S-1920.....	10 percent, cities and towns; 20 percent, special tax school districts; none, counties.	Municipalities, counties, districts.	Majority of voters who are freeholders.	Special assessments refunding, city lighting bonds, 7 percent.
Georgia.....	C-1877, C-1918.....	7-10 percent.....	Counties, cities, municipal corporations.	¾ popular vote.....	Cities over 150,000, street improvement bonds; temporary loans. Refunding purposes.
Idaho.....	S-1919, S-1927.....	10 percent, municipal corporations; 4, 6, 10 percent, school districts; 5 percent, port districts.	All subdivisions.....	Governing body.....	
Illinois.....	C-1870, S-1913, S-1921, S-1925.....	5 percent, municipalities and conservancy districts; 4 percent, sanitary districts; 1 percent, forest preserve districts.	do.....	Popular vote.....	Water, sewage systems, electric plants.
Indiana.....	C-1881, S-1928.....	2 percent, municipalities, counties; 8-10 percent, sanitary districts of first-class cities; one-half percent, park districts of first-class cities.	Counties, municipalities, districts.	Governing body.....	Funding, temporary, war construction of gravel roads.

	C-1857, S-1924.	5 percent ¹ .	Municipal corporations and companies.	60 percent popular vote.	Cities of 25,000, flood-protection bond up to 5 percent; self-liquidating utilities.
Iowa.....	S-1909, ¹⁰ S-1923.	5 percent, cities of 50,000; 1-3/4 percent, school districts.	All subdivisions.		Cities of 50,000; special-improvement and sewer bonds, 5 percent additional where assessed against property.
Kansas.....	C-1891.	10 percent, first- and second-class cities and third-class cities over 15,000; 5 percent, fourth-class cities and third-class cities under 15,000; 3 percent, fifth- and sixth-class cities; 2 percent, tax districts and municipalities; 5 percent, counties (road purposes).	Counties, cities, towns, municipalities; taxing districts.	3/4 popular vote.	Renewals, funding, emergency, water works, local improvements up to assessed valuation of property benefited.
Kentucky.....	C-1921, S-1921.	10 percent.	All subdivisions.	Majority vote (in number and value) of property taxpayers.	Self-sustaining improvements, tax loans.
Louisiana.....	C-1877, C-1911.	5 percent; cities and towns; 7 1/4 percent, cities over 40,000.	Cities, towns.	Governing body.	Temporary refunding, war loans.
Maine.....	Special statutes S-1921.	3 percent, towns; 2 1/2 percent, cities (except Boston).	Cities, towns, districts.	3/4 popular vote.	Statute exceptions for many purposes up to 10 percent in some cases.
Maryland.....	S-1909, S-1925, S-1931.	10 percent, cities and villages; 3 percent, counties; 5 percent, counties assessed valuation \$5,000,000 or less; 2 percent, port districts.	Counties, cities, villages, districts.	Popular vote.	Fire, flood, public calamity, public utilities special assessments refunding.
Michigan.....	C-1879, S-1927.	10 percent, municipalities; 5 percent, first-class cities; 20 percent, school districts.	All municipalities.	3/4 popular vote, villages and boroughs; 3/4 popular vote, school districts; majority popular vote elsewhere. ¹¹	Special assessments, self-liquidating projects, revolving-fund warrants.
Minnesota.....	S-1932.	10 percent.	All subdivisions.	Majority popular vote.	Water, light, special improvements, refunding, tax loans; 5 percent additional for schools, if municipal is separate school district (20 percent highest limit).
Mississippi.....					

¹ The Arkansas Constitution of 1784 forbids any "county, city, town, or municipality" ever to issue any evidences of indebtedness. This has been evaded by the use of municipal improvement districts which have been held not to be municipalities within the meaning of the constitutional provision (*Fitzgerald v. Walter*, 55 Ark. 148 (1891)). The amendment, 1926, extended power to incur debt to first- and second-class cities, that is, incorporated communities having in excess of 2,000 population. It is sought further to limit the debt-incurring power of municipal corporations (except school districts) by the constitutional prohibition of a greater annual tax levy than 10 mills (1924) or a greater amount than \$5,000,000.

² The constitution prohibits counties from incurring debt except for public buildings, roads, and bridges.

³ A general act of 1921 provides for bond issues of school districts and special school districts.

⁴ There are exceptions to this limit for charter cities.

⁵ There are numerous exceptions to this general limitation. The city of Brunswick, for example, may create debt up to 14 percent.

⁶ The 4-percent limit is applicable to rural and joint rural high-school districts; the 6-percent limit, to common, joint common, independent, and joint independent school districts; the 10-percent limit, to independent class A and joint independent class A districts.

⁷ For Federal projects (P. W. A.), two-thirds popular vote is required; for waterworks bonds, two-thirds vote of taxpayers; for debt initiated, a majority vote.

⁸ There is a limit of 1 percent of counties for construction, etc., of county buildings.

⁹ This limit is based on the true value of property, according to judicial interpretation. A law of 1924 fixes the limit at 1 1/4 percent actual value.

¹⁰ These acts have been amended frequently.

¹¹ An exception to these methods of authorizing debt is refunding issues in municipalities where 25 percent or more of the land has been delinquent for more than 3 years. These issuances may be authorized by the local governing body but are subject to protest and referendum.

Limitations on local debt—Constitutional and statutory debt limits; general provisions as of Jan. 1, 1936—Continued

State	Source and date of limitation	Ordinary debt limits	Units affected	Authority for creating debt	Exceptions to debt limits
Missouri.....	S-1919, S-1920, S-1927.	5 percent, municipalities; 10 percent, cities of 75,000.	Municipalities (including counties).	$\frac{3}{4}$ popular vote.....	Cities of 75,000, additional 10 percent, public utilities; cities of 30,000, additional 10 percent for water and light purposes; counties, courthouse, jail, roads, bridges, culverts.
Montana.....	C-1889, S-1931.....	2½, 5 percent, counties; ¹² 3 percent, cities, towns, school districts.	Counties, cities, towns, school districts.	Majority is popular vote except funding and re-fund.	Water, sewerage systems, 10 percent additional by vote of taxpayers affected; refund.
Nebraska.....	C-1875, S-1922.....	10 percent, cities; and counties; 5 percent, metropolitan cities; 6 percent, light, heat, and power districts.	Counties, municipalities, school districts.	Popular vote ($\frac{3}{4}$ school districts).	Water and sewer purposes refund.
Nevada.....	Special statutes.....	30 percent, cities	Counties, cities, school districts, municipalities.	Majority vote of taxpayers and non-taxpayers, voting separately.	Public utilities, water supply, self-liquidating bonds.
New Hampshire.....	S-1895, S-1917.....	1 percent, village precincts; 2 percent, school districts; 3 percent, counties, cities, towns, 6 percent, city of Nashua.	Counties, cities, school districts, municipalities.	Governing body, cities; two-thirds popular vote, elsewhere.	Water, electricity, poor relief, tax notes, authorizations by special act.
New Jersey.....	S-1916.....	7 percent, municipalities; 4 percent, counties; 6 percent, first-class school districts; 9 percent, third-class school districts.	Counties, cities, towns, precincts.	Governing body.....	Temporary relief bonds, refunding bonds (10 percent).
New Mexico.....	C-1911, S-1923.....	4 percent, counties, cities, towns, villages; 6 percent, school districts.	All subdivisions.....	Majority vote of taxpayers, except refund.	Counties, cities, towns, villages; water and sewer purposes.
New York.....	C-1894, S-1909, S-1923.	15 percent, counties, cities, towns, villages; 15 percent, school districts of real-estate valuation of \$500,000 or more.	Counties, cities, towns, villages, districts.	Majority popular vote.....	New York City, subway bonds; towns, insurances up to 33½ percent by majority popular vote.
North Carolina.....	S-1921, S-1927, S-1931.	8 percent, cities and towns; 15 5 percent, school districts; 5 percent, counties.	Counties, municipalities, corporations.	do.....	Refunding, water, gas, electric light, or power purposes, school debts.
North Dakota.....	C-1923, S-1927, S-1931.	5 percent.....	All subdivisions.....	60 percent popular vote ¹⁴	Revenue-producing utility bonds, not exceeding physical value of utilities, by majority vote; cities, insurances up to 8 percent by two-thirds vote; school districts, 10 percent, by majority vote.
Ohio.....	S-1927.....	5 percent municipal corporations ¹⁷ ; 6 percent school district; 2 percent, townships.	Counties, municipal corporations, school districts.	Popular vote.....	Emergency, temporary, self-liquidating loans.
Oklahoma.....	C-1907.....	5 percent.....	All subdivisions.....	Three-fifths popular vote. ¹⁸	Cities and towns, public-utility purposes.
Oregon.....	S-1903, S-1927, S-1929, S-1933.	10 percent, cities, towns; ¹⁹ water districts; 6 percent, county road debts; 5 percent, school districts under 75,000 population.	do.....	Majority popular vote.....	Water, gas, power, lighting, refunding, short-term; counties, suppressing insurrection, repelling invasion, building roads.
Pennsylvania.....	C-1874.....	7-10 percent, municipalities ²⁰ and incorporated districts; 10 percent, counties; 15 percent, city and county of Philadelphia.	Counties, municipalities, districts.	Popular vote for insurances in excess of 2 percent.	Self-liquidating utilities.

Rhode Island	S-1923	3 percent	Towns (includes cities)	Popular vote, towns; governing body elsewhere.	Authorizations by State commissioner of finance on petition.
South Carolina	C-1895, S-1927	8 percent	All subdivisions	Majority popular vote, except refunding bonds.	Water, sewer, lighting, refunding, tax-anticipation loans; many legitimate authorizations up to 20 percent.
South Dakota	C-1889	5 percent ¹	Counties, cities, towns, school districts.	$\frac{3}{4}$ popular vote	Water, sewers, irrigation, up to 10 percent; refunding, street railways, light plants, up to 8 percent, in counties over 8,000 population.
Tennessee	C-1870, S-1917	10 percent cities and towns ²	Counties, cities, towns	Majority popular vote, except funding and refunding.	Water, light, heat, power, public improvements payable from special assessment fund.
Texas	C-1876, S-1925, S-1931	5 percent counties, 6 percent municipalities	Counties, municipalities	Majority vote property taxpayers, except funding and refunding.	Special improvement bonds.
Utah	C-1896, S-1917	4 percent, cities, towns; 2 percent, counties	Counties, cities, towns, school districts.	Majority vote property taxpayers, except refunding.	Water, lights, sewers; total indebtedness of first- and second-class cities may not exceed 8 percent; of third-class cities, 12 percent.
Vermont	S-1917, S-1925	10 percent ²	All municipal corporations.	Two-thirds popular vote.	Water, electric, poor relief, tax notes.
Virginia	C-1902, C-1928	18 percent, cities, towns; ³ 10 percent, county roads; 15 percent, county water supply.	Cities, towns, districts.	Majority popular vote	Revenue-producing projects, tax-anticipation notes.
Washington	C-1880, S-1923	5 percent	All subdivisions	$\frac{3}{4}$ popular ² vote for issues over 1 $\frac{1}{2}$ percent.	Cities, towns; 5 percent additional for water, light, sewers; fourth-class cities, 10 percent, for garbage and sewage-disposal systems; public utility

12 The limit for counties may reach 5 percent for the following purposes: (1) Rebuilding, repairing county buildings, bridges, or highways destroyed or damaged by an act of God, disaster, catastrophe, or accident; (2) acquiring land for sites for county high-school buildings, furnishings, etc.
 13 Only taxpayers may vote on questions concerning the construction, purchase, or securing of a water plant, water system, water supply, or sewerage system. Counties are prohibited by the constitution from incurring the debt for any single purpose in an amount exceeding \$100,000, without majority popular approval. County, city, and town bond elections are by petition and referendum, and the issuance must be approved by a majority of 40 percent of the qualified voters entitled to vote.
 14 Counties may issue bonds for buildings, roads, and bridges.
 15 Counties may issue bonds within an 8-percent limit (which may be exceeded for a number of purposes) if they accept school indebtedness.
 16 Exceptions are bonds issued by cities and villages for payment of deficiencies in special improvement district funds, certain issuances exceeding the ordinary limit, and refunding bonds.
 17 The limit for counties is a sum equal to 3 percent of the first \$100,000,000 or part thereof of the tax list, plus 1½ percent of the tax list in excess of \$100,000,000. Debts created without popular approval are subject to lower limits.
 18 Utility debt may be created by a majority vote of property taxpayers voting.
 19 The 10-percent limit for cities and towns was reduced to 5 percent by ch. 306, Laws of 1933.
 20 There are apparently 3 limits for municipalities—2 percent, 7 percent, and 10 percent. Debts up to 2 percent may be incurred by the local governing body; up to 7 percent, by majority popular vote; up to 10 percent, by ¾ popular vote.
 21 County and central high-school districts may create 2 percent additional debt.
 22 Incurrence of debt by other localities is authorized by special statutes.
 23 statute defines the limit as "10 times the grand list."
 24 own's charter specifically allows creation of indebtedness beyond the constitutional limit, the 18-percent limitation is not applicable.
 25 own's charter provides that the constitutional ¾ majority must be equal to more than 50 percent of the voters who voted at the last preceding State or county election.

Limitations on local debt—Constitutional and statutory debt limits, general provisions as of Jan. 1, 1936—Continued

State	Source and date of limitation	Ordinary debt limits	Units affected	Authority for creating debt	Exceptions to debt limits
West Virginia.....	C-1872, S-1906, S-1927.	5, 2½ percent *	Counties, cities, municipal corporations, school districts.	¾ popular vote.....	Federal Government ¹⁷ purposes; counties, magisterial districts, and certain municipal corporations may create 2½ percent additional debt for certain purposes.
Wisconsin.....	C-1874, C-1912.....	5 percent.	All municipalities.....	Majority popular vote, except street improvement bonds.	Sewer plant, relief, temporary borrowing up to 25 percent.
Wyoming.....	C-1890, S-1931.....	2 percent.....	Counties, cities, towns, villages, districts.	Majority popular vote ¹⁸	Cities, towns, villages; 4 percent, sewers. School districts; 4 percent, school buildings. Cities, towns; water debts.

* The constitutional limit is 5 percent; the statutory, 2½ percent.

¹⁷ West Virginia municipalities and school districts may be authorized to exceed the 2½- and 5-percent limits.¹⁸ Improvement and refunding bonds may be issued by the local governing body.

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Mr. STRAUS. Now, with that information, I will be glad to give any replies you direct me to as to the English system, which I brought up myself yesterday, and then I rest my case.

The question was raised as to the amount of the subsidy in England, compared to our own, yesterday, and also the question as to whether or not there is any capital grant in England which we have not here. I have information directly bearing on that, with complete answers, I think, to the points that you raised, and I am ready to present them any time you direct me to do so.

Mr. GOLDSBOROUGH. As far as I know, you may proceed with that now.

Mr. WILLIAMS. It does not make any difference to me.

Mr. STRAUS. Mr. Williams was in the middle of questioning me when we adjourned yesterday. So whatever you say is agreeable to me.

Mr. GOLDSBOROUGH. Proceed, Mr. Williams.

Mr. WILLIAMS. I will be glad to go ahead now.

I wanted to see if I can understand the system you are administering now. I notice in the copy of this agreement which you sent me, with the Louisville Municipal Housing Commission, that there is set out in the agreement the security for the payment of bonds issued by the commission, and also it provides for a trust indenture, but it creates a first lien, as I understand it from this language, against the proceeds derived from the rents and the running of the project, and also a first lien on the annual contributions made by the United States Housing Authority to pay those obligations.

Now, am I correct in that?

Mr. STRAUS. I would rather have counsel answer that. That is a technical, legal question, and I did not draft the contract, so that I would rather have counsel answer it, if he may.

Mr. WILLIAMS. Yes; he may answer it.

Mr. KEYSERLING. I think the Congressman is referring to the loan contract between the Louisville Municipal Housing Commission and the United States—

Mr. WILLIAMS. That is what I said.

Mr. KEYSERLING. Yes. On the first page of that contract, there is a definition of what is meant by bonds as used in that agreement, and this agreement refers only to the bonds which the United States Housing Authority takes up, that is, the 90 percent bonds.

Mr. WILLIAMS. But right in that same connection, we turn over to page 2, beginning at the bottom of that page, which says "which shall also secure any other obligations."

What does that mean?

Mr. KEYSERLING. Any other obligation issued under the trust indenture.

Mr. WILLIAMS. Yes.

Mr. KEYSERLING. But the trust indenture secures only the bonds which the United States Housing Authority takes up. You will see that on page 3, under a caption "trust indenture," that the bonds are to be secured by an indenture, and the bonds, as you will notice, are the bonds defined on page 1.

It is a rather technical question, but is perfectly clear. This agreement deals only with the loan made by the United States Housing Authority. On page 1 of the agreement, the bonds are defined, as you will see at the middle of the page, the words "hereinafter called

bonds," and those are the bonds which the United States Housing Authority agrees to purchase. Then you have a description of those bonds, and under (1) you have the trust indenture which is to secure those bonds, and then the obligation——

Mr. WILLIAMS. You also have the language "which indenture shall also secure all other obligations."

Mr. KEYSERLING. Where is that?

Mr. WILLIAMS. On page 3, the middle of the page.

Mr. KEYSERLING. The language on page 3, in the middle of the page, says that the trust indenture shall secure all other obligations issued to assist the development of the project not in excess of the amount shown in paragraph 1 (h).

Mr. WILLIAMS. Not in excess of the amount shown.

Mr. KEYSERLING. Yes; I do not see where there is a conflict between those two statements.

Mr. WILLIAMS. What I cannot get in my mind from reading the language set out here is this: Does it not secure all the obligations of the United States Housing Authority that are issued for the purpose of constructing the project, of developing the project? It seems to me that that is what it says.

Mr. KEYSERLING. If the local housing authority sells bonds to an outsider for the 10 percent, one of the two things may happen: either there may be a separate trust indenture for the purpose of securing those bonds, or, if those bonds are secured by the same indenture, then the terms of security must be passed on by the United States Housing Authority, and there is nothing in that which conflicts with the law that all payments of principal and interest must be met first by the subsidy.

That provision is written into the act.

Mr. WILLIAMS. I am not discussing that question. I asked whether and I think that you now admit that, this indenture covers the obligations which the United States Housing Authority has, as well as other obligations issued by the local housing authority for the purpose of developing the project. In other words, it is one indenture.

Mr. KEYSERLING. It may be one indenture.

Mr. WILLIAMS. All right; it may be one indenture.

Mr. KEYSERLING. Yes, of course.

Mr. WILLIAMS. And the same security is created under that indenture as to all of these obligations, is it not?

Mr. KEYSERLING. No, Congressman; the security is not the same, because the main security for the retirement of the Federal loan is the pledge of the annual subsidies paid by the Federal Government under the terms of the Act. This specifically requires that those payments must be applied first toward the payment of principal and interest as it falls due on the Federal loan, and there is nothing in the indenture, whether there is one or two indentures, that conflicts in any way with that.

Mr. WILLIAMS. But it also provides that if there is any surplus, that goes into this fund.

Mr. KEYSERLING. If there is any surplus, it goes into this fund after the Federal loan is fully protected.

Mr. WILLIAMS. And that contribution has been made at 3½ percent?

Mr. KEYSERLING. It is based not upon the amount of the loan. The contribution under the terms of the Act is based on the development cost of the project, not upon the relationship between the Federal and local loans.

Mr. WILLIAMS. That is based on the cost of the project.

Is it contemplated that the obligations of the Housing Authority, the local Housing Authority, will be in excess of the cost of the project?

Mr. KEYSERLING. Not at all.

Mr. WILLIAMS. Then what difference does it make?

Mr. KEYSERLING. I do not understand your question.

Mr. WILLIAMS. You say that the amount of the obligation is based upon the cost of the development of the project.

Mr. KEYSERLING. Yes.

Mr. WILLIAMS. That is the amount of the obligations that are issued by the Housing Authority to take care of the development of the project, to pay for it?

Mr. KEYSERLING. The difference it makes is this: There are some cases where the local capital has been furnished partly by loan and partly by grant, and independently of that the Federal subsidy is calculated upon the full development cost of the project as a maximum and the actual annual contribution is the amount necessary to reduce the rentals.

In other words, if the local contribution were furnished 50 percent by gift and 50 percent by loan, instead of 100 percent by loan, that would have nothing to do with the method of calculating the annual contribution under the law. There is no necessary relationship between the annual contribution and the loan provision. They may run over different periods of time. The annual contribution contract, if it runs for 20 years or more, is subject to reexamination at the end of 10 years, and it is based originally upon the development cost of the project and fixed by the amount necessary to achieve the low rentals.

Mr. WILLIAMS. The maximum is 3½ percent?

Mr. KEYSERLING. Of the development cost.

Mr. WILLIAMS. Suppose that half of that was donated; do you not think that you could cut down the percentage of contributions?

Mr. KEYSERLING. It would cut down the rentals.

Mr. WILLIAMS. It could cut down the annual contribution, and, should do it, should it not?

Mr. KEYSERLING. If there were a 50-percent local capital contribution, and you cut down the Federal subsidies corresponding to that, you would achieve the same result.

Mr. WILLIAMS. Yes. You would still achieve the low rentals?

Mr. KEYSERLING. Yes.

Mr. WILLIAMS. But you could cut down the annual contribution of the Government to that extent?

Mr. KEYSERLING. If there were a 50-percent capital contribution—

Mr. WILLIAMS (interposing). You say that in some cases there have been local contributions.

Mr. KEYSERLING. Yes.

Mr. WILLIAMS. What does that mean?

Mr. KEYSERLING. In one city it took the form partly of land—

Mr. WILLIAMS. Partly of land?

Mr. KEYSERLING. Yes.

Mr. WILLIAMS. Is that all?

Mr. KEYSERLING. Has anyone the exact figures on those local contributions?

Mr. STRAUS. We have them in the record once already. They were on my sheet the other day.

Mr. WILLIAMS. Has there been just one case?

Mr. STRAUS. No; two cases. I am sure of that.

Mr. WILLIAMS. Let us have those, please.

Mr. KEYSERLING. In the case of the Austin, Tex., Housing Authority, there was a capital contribution amounting to 1.3 percent of the development cost in the form of streets.

In the case of the Charleston Housing Authority, there was a capital contribution of 5.4 percent of the development cost in the form of land.

Now, there were two points that I was trying to make in answer to your question. The first was as to the question raised by the contract—

Mr. WILLIAMS. Let me ask you, while we are on that local contribution matter, how did it happen you were able to get a contribution in those two cases, and could not in the others?

Mr. KEYSERLING. I do not think you can give an explanation of why something is possible in one case and not in the other.

Mr. WILLIAMS. Was that entirely voluntary, or was that because of some effort on your part?

Mr. KEYSERLING. We have made efforts in every case to get grants. If there is a 10-percent grant instead of a 10-percent loan, it is perfectly true that you will get one of two results, either a slightly lower rent, or the same rent with a slightly lower subsidy. The difference between the annual charges on the basis of a 100-percent loan over 60 years at 3-percent interest, and the annual charges on a 90-percent loan and a 10-percent capital grant, are so similar that it will make very little difference in the rentals.

Mr. WILLIAMS. Just 10-percent difference.

Mr. KEYSERLING. Not in the rentals.

Mr. WILLIAMS. It will on the contribution.

Mr. KEYSERLING. No, sir.

Mr. WILLIAMS. You can figure it on that basis.

Mr. KEYSERLING. If you figure it on that basis, it would make a 10-percent difference.

Mr. WILLIAMS. I think I can say that that was the intention we had in passing this legislation. I know it was my intention, and I know I made a speech on the floor of the House, and, as the chairman has already said, if we misrepresented this thing to the House, we have to make some correction of it. I know that that was my thought in that matter, and I say that as a friend of this legislation and as one who did everything he could to pass it. That is what we had in mind beyond any question when we passed it, and that is the reason I am asking these questions.

Now, to go further into this agreement here, I notice down on page 3 with reference to the indenture that in event the provisions are not carried out, or in event of default, as it is worded, the rights and remedies of bondholders thereunder shall be as indicated.

What are the rights of bondholders in cases of default?

Mr. KEYSERLING. Before I answer that question, I want to make it perfectly clear, and if it is not clear I want to expand upon it, that this agreement that you have before you determines only the rights between the United States Housing Authority and the local housing authority with respect to the 90-percent bonds. All of the language throughout this agreement refers to bonds, and bonds are defined on the first page as the bonds taken up by the United States Housing Authority. Any rights between the United States Housing Authority and the purchaser of the 10-percent bonds are something determined subsequently and independently by an agreement at that time approved by us, and there is nothing in such an agreement which could in any way modify the provision of the law that the subsidies have to be applied first toward the retirement of principal and interest of the Federal loan—

Mr. WILLIAMS. That does not make so much difference; I am not concerned so much about that, because the entire bond issue of the local housing authority is financed out of the same resources. That is true, is it not—and out of the same funds?

Mr. KEYSERLING. I do not think that that is a correct analysis of the financial picture.

Mr. WILLIAMS. I understand what you mean, that you have a first claim on the annual contributions made by the Government so far as the bonds held by the United States Housing Authority are concerned. They come first.

Mr. KEYSERLING. They come first.

Mr. WILLIAMS. But, at the same time, you have the funds there, the proceeds from the project, which are figured in, and all of those obligations are financed from those two sources, serviced by the income from the project and the contributions made to the Government. That is true, is it not?

Mr. KEYSERLING. It is certainly true that the bonds are all serviced from the gross revenues of the project, and that the revenues from the project come from three sources, first from income derived from rentals, second from the reduction of local charges against the project by means of tax exemption, and third from the Federal subsidy.

Take this case. Under this act, and under this language, we have the right to revise and review Federal annual contributions periodically.

Mr. WILLIAMS. Over 10 years, and 5 years afterward?

Mr. KEYSERLING. Yes. If in 10 years it should develop that a lower Federal contribution were sufficient to attain the objective of low rentals, that lower contribution would be made, or it might be abolished entirely, or it might be increased up to your maximum, and that reduction or cessation or increase would be quite independent of any matter of financing the bonds. The obligation to meet the payment of both the Federal and the local bonds would remain.

Mr. GOLDSBOROUGH. The only thing that is of importance as far as I am concerned, the only thing that I am interested in for the moment, at least, is whether or not there are local contributions amounting to 10 percent.

Mr. PATMAN. Would the gentleman yield?

Mr. GOLDSBOROUGH. If there are——

Mr. PATMAN. I want to say this——

Mr. GOLDSBOROUGH. Just one minute, Mr. Patman. I have not completed my statement.

Mr. PATMAN. I beg your pardon.

Mr. GOLDSBOROUGH. If there are, I am satisfied, and if there are not, I want to know why, so that we can properly consider this legislation. That is all that I am interested in for the moment. I think that when we get to that step, we can proceed with some degree of satisfaction.

Mr. PATMAN. Will you permit me to make an observation, which I hope you will take into consideration?

Mr. GOLDSBOROUGH. Mr. Williams is examining the witness now.

Mr. WILLIAMS. All right; go ahead.

Mr. PATMAN. In Austin, Tex., we will presume that the amount of the project is \$1,000,000, and that the local bankers have agreed to take \$100,000 of that 10 percent. The \$100,000, of course, is sufficient to establish the project. The Government puts up \$900,000, and the local bankers \$100,000. It is a case of the local people putting up local money.

Now, let us suppose that they carry no fire insurance, and that something happens to the project, so that it is absolutely destroyed by fire, or by earthquake, in a way so that it cannot be used at all. Those local people lose \$100,000. They have put up \$100,000.

I think that that is the best test of it, and I hope that the gentleman will keep that in mind when he asks the questions about these local people putting up local money.

Thank you.

Mr. WILLIAMS. All right. Of course, if they put up the local money, and it is paid for out of the operations of the project and the Government subsidy, as Mr. Straus said the other day, there is of course no question about being able to sell the bonds to the local authorities. They are good. I agree with that proposition. On that theory it makes little if any difference whether the Government puts up the 100 percent or whether the local authorities put up 10 percent. That is true, is it not?

Mr. STRAUS. May I answer that?

Mr. WILLIAMS. Yes.

Mr. STRAUS. I think at this point the actual fact as to what is being done in England, about which you asked me, is very illuminating, because your——

Mr. WILLIAMS. We are talking about this country now.

Mr. STRAUS. It is a program that is modeled on the English system.

Mr. WILLIAMS. I do not know that.

Mr. GOLDSBOROUGH. Personally I have not the slightest interest in England.

Mr. WILLIAMS. I, neither.

Mr. STRAUS. The gentleman asked me yesterday for it, and we spent a great deal of time on it last night.

Mr. WILLIAMS. That is all right, but we have not gotten to that, as I understand it. I have no objection to that. I think we ought to have that information, but it seems to me, as I say again, it would make very little difference how that is financed, because it all comes out of the same resources.

Mr. FORD. Then what is the objection to the amendment?

Mr. WILLIAMS. So far as I am concerned, there is not much objection to this amendment, but I am objecting to the manner in which it has been administered so far, and the way it was administered is not what we intended in the first place and it is not what I intend now, and if the law is not the way we thought it was, I for one am in favor of making it that way, and that is to require a local contribution, or a gift, donation, or whatever you want to call it, of 10 percent, and that is, just as sure as I am here, what we thought we were doing.

Now, I come back to the question I asked before, which was, in case of default, what rights have the bondholders?

Mr. KEYSERLING. Congressman——

Mr. WILLIAMS. Or what remedies. The words "rights and remedies" are used here.

Mr. KEYSERLING. May I make this suggestion? To the extent that the responsibility for interpreting this law from the point of view of administration rests on the Legal Division, subject of course to the approval of the Administrator, I think it only fair that there should be an opportunity to indicate why, from the point of view of the statute, that 10 percent is being raised in many cases not as a gift, but as a loan, and I would like to be able to answer that question as soon after it is asked as possible, but I have no objection to going into the question of default and going back to the question of why the 10 percent is being raised as it is.

Mr. WILLIAMS. Did you examine into the discussions that we had on this bill at all?

Mr. KEYSERLING. I examined very thoroughly into the whole legislative history of the bill.

Mr. WILLIAMS. Did you read the discussion on the floor of the House?

Mr. KEYSERLING. Yes, sir; heard it and read it.

Mr. WILLIAMS. Do you remember the amendment offered by Mr. Voorhis, of California?

Mr. KEYSERLING. Yes, sir; I went completely through the legislative history of the whole bill.

Mr. WILLIAMS. Did you read the argument that I tried to make in answer to that amendment?

Mr. KEYSERLING. I will say yes, that I read it all as carefully as I could.

Mr. WILLIAMS. And not only that one, but others. I know what I did, and I only cite that because I have a distinct recollection of that myself. Others, I am sure, took the same position at that time, and it was specifically pointed out, in defense of the amendment which he offered, and in his argument, that the reason he offered that amendment was for the very purpose of relieving the cities and localities of that burden of putting up a 15-percent contribution, that they just could not do it, the same argument that is being used here now.

Mr. PATMAN. As a gift, or loan?

Mr. WILLIAMS. As a gift by the localities, the municipalities.

Mr. KEYSERLING. Congressman, it has always been my belief, and if I am wrong I want to be corrected——

Mr. WILLIAMS. It is a gift so far as the local housing industry is concerned by the municipality. If the municipality wants to borrow the money, or issue bonds, that is all right.

As I say, that was the argument that was used, and I want to call your particular attention, if you have not read it, to the argument on August 18, last, on pages 11858 to 11859 of the Congressional Record, and I do not see how anybody who has studied the history of the legislation could reach any other conclusion.

That is my view of it.

Mr. TRANSUE. Will the gentleman yield?

Mr. WILLIAMS. Yes.

Mr. TRANSUE. In regard to the 45-percent grants, my memory is that at the time that was discussed, but that is a different thing than we are discussing here, but the money was to be raised by the local housing authority by a mortgage on the property where a grant was made by the United States Housing Authority. I think the Record bears that out, that that is the way they were to raise the money, and if that is the way they were to raise it——

Mr. GOLDSBOROUGH. That is the way they were to raise the money, but they would pay the 45 percent then and not receive it indirectly from the Government.

Mr. TRANSUE. They were to raise it by mortgage on the property to be erected, and that is what they are doing with the 10 percent.

Mr. GOLDSBOROUGH. Then I do not understand the controversy here today. As I understand it, the issue is this, whether those who loan the money will have to be paid through a local contribution or local grant, or whether they will get it indirectly from the Government by an increased Federal subsidy.

That is the issue, as I understand it.

Mr. WILLIAMS. That is the issue.

Mr. TRANSUE. But, Mr. Chairman——

Mr. GOLDSBOROUGH. Just one minute, please. Let me finish my statement, and then I will try to stop.

Now, if that is a fact, if under the bill which we passed in 1937, by indirection, what was supposed to be a local contribution is really to be made by the Federal Government, then I say that the House was misled, the Senate was misled, and the President was misled.

Now, the first thing I want to know is whether or not that is true, and then we may pass on from there.

Mr. TRANSUE. This 10 percent that is raised by the local authority, as I understand it, is paid back from the rents on the property, and the income—is that correct?

Mr. REILLY. There is no question about that.

Mr. GOLDSBOROUGH. If it comes out of the income of the property, then it is not a local contribution.

Mr. WILLIAMS. Of course not, and that is the point, that it is not a local contribution in any sense of the word.

Mr. KEYSERLING. May I address myself to the question?

The first question that has been raised here has been the question of the interpretation of the statute. Now, it has always been my belief that the first source of reference is the statute itself, and that the secondary source of reference are the debates which have been held upon the bill.

Let us go first——

Mr. GOLDSBOROUGH. Just one minute. There are many able lawyers on this committee, and there is no question but what you are right, that the statute is the first source and the only source of refer-

ence in every case unless there is ambiguity. If there is ambiguity, then you can certainly go back to the history of the legislation.

As far as I am concerned, I am for the moment talking about what is in the statute, and I am asking whether the intent of Congress is violated by what is now being done in setting up these slum-clearance projects.

That is the thing that I am interested in.

Mr. KEYSERLING. May I address myself, then, to the statute, merely for the purpose of discussing whether the intent of Congress is being violated?

Now, you have several sections in this statute which deal with the methods of local participation in the program.

In section 10 (a) of the statute, you have a provision that the locality shall make annual contributions, and the statute spells out in detail the methods by which those local annual contributions may be made. It says that they may be made in the form of cash, or tax remissions, general or special, or tax exemptions equal to at least 20 percent of the annual contributions which are therein provided.

Now, there is a definite provision in the statute that where you are dealing with annual contributions, the annual contributions made by the locality shall be in a specific form.

Again, in section 11 (f) of the statute, you have a statement as to the methods by which local capital grants may be made, and the statute says in detail that the local capital grant shall be made in the form of tax remissions or tax exemptions in an amount not less than 20 percent of its development cost.

That seems to me to be entirely consistent with the whole financial framework of this measure. Where you are dealing with capital donations, whether in the form of initial capital grants or annual grants, the local contributions shall be——

Mr. GOLDSBOROUGH. What does it say about the 10 percent?

Mr. KEYSERLING. I am coming to that now.

This bill sets up a second system of financing, not a system of capital grants, but a system of loans for development cost plus annual subsidies. In the part of the bill which deals with that, there is no specification whatsoever as to how the local 10 percent shall be raised. There is merely the clear statement that where you are dealing with the initial figure on the housing project through loans rather than through capital grants, the Federal Government shall not loan more than 90 percent.

It seems to me perfectly reasonable and perfectly in line with the whole financial program that you have two methods of subsidy, the capital grants on the one hand and the initial loan financing the project plus annual contributions on the other, and where you are dealing with the initial loan method, it does not seem to me that an initial capital grant by the locality should be mixed with an initial capital loan by the Federal Government.

Mr. GOLDSBOROUGH. Now, my opinion of what you say about the 10 percent local contribution is this. Of course, the local contribution can be made by a loan or by a grant, and if it is made by a loan, in my opinion those that make the loan are not to depend upon assessments, contributions, or grants in order to make that loan good.

Mr. PATMAN. Including local rents on the project

Mr. WILLIAMS. Not on this project.

Mr. TRANSUE. Why not?

Mr. GOLDSBOROUGH. Because that throws the burden on the Federal Government.

Mr. TRANSUE. Yes; but if the proposition is not a paying proposition, the fellow that loaned the money at the time loses, does he not?

Mr. PATMAN. And for 20 years he is going to see that these tenants pay their rents, and that they will not strike and "sit down"—at least that they pay the rent.

Mr. KEYSERLING. Mr. Chairman, may I attempt a more specific answer to your question?

Mr. GOLDSBOROUGH. Yes.

Mr. KEYSERLING. It is perfectly true that the local governments and the Federal Government should participate in the financing of the project. Part of the financing of the project, in the form of annual contributions, is necessarily for the retirement of whatever financial charges there are on the project. The only position that is being taken by the United States Housing Authority, as I understand it, is that the donations which are being made, federally and locally, toward the annual support of the project, cannot be loaned specifically for the retirement of the debt or for the retirement of operating expenses, and so forth. They are annual contributions toward bringing down the rentals which have to be charged.

Then those annual contributions are made from two sources, first from the Federal Government as annual subsidies, and second from the localities in the form of complete remissions of local taxes. Both of those contributions are being made annually toward the retirement of all charges on the project, and the local contributions which are being made in the form of tax remissions, amounting to about 60 percent of the annual Federal contributions, are to that extent a donation toward the reduction of the annual charges.

Mr. GOLDSBOROUGH. The difficulty about it is that an analysis of your statement means this, in a few words, that the Federal Government pays the 10 percent and the 20 percent. When you just take your statement and cut it loose from the verbiage, you mean to say that the contracts are of such a character that the Federal Government pays the 10 percent and the 20 percent, and they pay the 20 percent for this reason, that when these slums are cleared and this improved housing is put in in place of them, the total taxation base of the municipality is raised, so that insofar as any contribution of taxes is concerned in view of the fact that this housing project is not taxed is a joke.

As a matter of fact, while the Federal Housing project may not be technically Federal property, it is Federal property, certainly, in equity, and should not be taxed anyhow. So that, stripped of verbiage, the import of your statement is that the Federal Government is assuming this entire responsibility.

Now, what you want to do is to clarify that particular situation, and then we will proceed from there.

Mr. FISH. May I ask a question?

I have a great deal of sympathy with your remarks, Mr. Chairman, and the remarks of most of the members of the committee. I think that we ought to find out exactly where we are. Nobody seems to know. No one seems to know exactly how much money the Federal Government is supposed to contribute. It seems to me only fair

that the localities, the States, and the communities should contribute something in cash. It does not seem to me to be a great burden to ask for 10 percent cash on the loans to the localities and 20 percent on the grants. I think that we ought to have some kind of a definite yardstick, something that everybody understands.

Now, the Government is rendering a great benefit to the cities in the slum-clearance project, by putting up all of this money, and if it is to be successful, they must do something more than give this tax exemption.

Now, Mr. Straus, I am going to make a proposal, I hope with your consent, with your cooperation and the cooperation of your force. I am a member of the New York State constitutional convention, where I spend a part of my time. I propose to put in the convention a resolution, or amendment to the constitution, to make tax-exempt all of these housing projects of the United States Government in New York State. I assume that at least one-tenth, and probably one-sixth, of all of the money put up, of the billion dollars, goes into New York State. I may be wrong about that.

Mr. STRAUS. It cannot be more than one-tenth, according to the terms of the act, and New York City will probably get in the neighborhood of 5 or 6 percent.

Mr. FISH. It will probably be one-tenth in New York State, because we have a bigger problem there.

Therefore, I propose to offer that these buildings should be tax-exempt in the State of New York, with a good chance of getting it through, and that problem, therefore, will take care of itself, if it goes through the convention.

What we need is some definite yardstick. I think that we should ask and insist upon it, no matter how poor the cities claim that they are. We cannot say that New York City is bankrupt, that New York City, the richest city of the world, cannot afford to put up 10 percent. I do not think that the Government can afford to be simply doling out all of this money, without some absolute, definite effort on the part of these cities to contribute some little share in cash, and that is the proposal that I am going to make, that we do what we meant to do in the beginning, ask them to contribute 10 percent in cash.

Mr. CRAWFORD. Does the gentleman yield there?

Mr. FISH. Yes.

Mr. CRAWFORD. When you say the local community should put up 10 percent, do you mean that they should make that as an outright donation, or that they should make it as a form of a loan, to be paid back to them, as evidenced by debentures or bonds or some contractual obligation?

Mr. FISH. It depends on whether you make a grant, and if it is a grant, they ought to put up 20 percent. If it is a loan, they should put up 10 percent.

Mr. CRAWFORD. Do you mean as an outright donation, the 10 percent?

Mr. FISH. I go further. I think this loan proposition is pretty loose, and that there ought to be something more definite in the way of contributions by the communities than simply what they are doing now, just making tax exemptions. I would like to see the city which is benefited actually put up something.

Mr. WILLIAMS. Why, of course.

Mr. McKEOUGH. Mr. Chairman——

Mr. CRAWFORD. May I clear this up, Mr. Chairman? To me this is vital, just as vital as anything else that goes on here, and I want to know your personal opinion on it.

If the local community remits taxes, and thereby contributes annually, as counsel here has indicated, that takes care of the tax remission, and what I want to find out from you is, are you advocating that, in addition, the local community shall make an outright donation of, say, 10 percent, where the Government puts up the loan?

Mr. FISH. Exactly. They should put up 10 percent.

Mr. CRAWFORD. And make an outright donation?

Mr. FISH. Donations and grants should be 20 percent, and the others 10 percent.

Mr. CRAWFORD. And not to be paid back?

Mr. FISH. I think that unless you make these localities put up something definite, they will not have any interest in it. It is just a case of the Government holding the bag.

Mr. McKEOUGH. There is another city in the United States that is rather looked upon as important outside of New York City, one that I happen to represent partially, the city of Chicago.

I have listened with a great deal of interest to the discussion that has developed in connection with Mr. Straus' request for additional enabling legislation. If my recollection serves me correctly, I think it was quite definitely understood, in connection with the hearings that were had on the original bill, that the cities, after all, are not particularly receiving a wholly favorable action on the part of the national Government in connection with the National Housing Act. After all, people live in cities in some few instances in this country, and the cities, after all, have been making a continuing contribution to the security and welfare of this Nation as a unit, and I feel that if the Federal Government were to advance a loan of 90 or 100 percent of the project cost, and in addition offer a 3½ percent subsidy in the way of a continuing contributing charge or cost to amortize the 90 percent or 100 percent of the project, that the cities, after all, or the people that live therein, have not received any greater benefit than has been established in connection with many other activities of the Federal Government in the way of grants to the people of this Nation.

Mr. FISH. Does the gentleman yield?

Mr. McKEOUGH. I will yield after I finish my statement.

Mr. GOLDSBOROUGH. Do you not think we ought to know what the proposition is?

Mr. McKEOUGH. I think that we do know. I think that if you will be calm for a few minutes and permit the gentleman to tell you, you will find out, instead of subjecting him to 4 days of cruel questioning and cross examination, and, to one who is merely seeking information, it looked to me to be sort of a persecuting cross-questioning.

I think that if the gentleman were given a chance, he would be able in 30 minutes to contribute to this Committee and to the country a complete answer to all of the misunderstandings that have developed in this series of hearings.

There is another suggestion that I want to offer for the record, and that is that we have authorized many projects in the way of rivers and harbors developments in this country, involving many sections of the United States, where public moneys have been taken out of the Federal

Treasury for that sort of development, and there are many cities in this country that are not on navigable streams and that have not profited by these developments that, nevertheless, through their contributions as income to the Federal Treasury, in the way of income tax and otherwise, have contributed to those projects as a common obligation for the national good. There are many other activities such as Federal aid for good roads, and others, that I think have established beyond any reasonable doubt the effect of that sort of performance on the part of the Government in the interest of good government.

As one representing a city district, I want the record to show that I feel that Chicago, New York, Philadelphia, Cleveland, or any other city or rural district of this Nation that gets under the present set-up a contribution from the Federal Treasury is getting it in the form of continuing good government, and that it is for the protection and well-being and security of all of the people of the Nation, and I subscribe most heartily to the recommendations of the gentleman that have reference to this particular agency of the Federal Government. I think that instead of quibbling about a 90-percent loan as against 100 that he recommends for the purpose that he has pointed out in his testimony, and which certainly has been presented in an intelligent manner, we ought to do something.

We are trying to put people to work, and Mr. Straus has repeatedly testified, in answer to a series of questions propounded to him by the members of this committee, that he wants to make a 100-percent loan, in order that he may put more people to work in the shortest possible time, and that the continuing contribution that the city makes in the way of tax exemption is a direct obligation and a direct contribution by the people of the city involved to the continuance of good government, and I think that, in the interest of time, we should yield to his recommendation, report the bill out, and pass the bill and put the people to work, and I resent the inference that the cities are getting something from the Federal Government that they are not entitled to.

Mr. REILLY. That is simply your view.

Mr. McKEOUGH. That is my view, and I am entitled to it.

Mr. REILLY. You are entitled to your view.

Mr. McKEOUGH. Right, and I think that the Congress will not subscribe to your opinion.

Mr. REILLY. The problem that we are discussing here is whether or not the Government shall pay the whole cost.

Mr. FISH. That is what it is.

Mr. REILLY. You are entitled to your view to throw the Treasury's doors open and let Chicago and others help themselves, without doing anything themselves in the way of curing their own problems.

Mr. McKEOUGH. When there is a national emergency, there is no exemption, and those that live in the slums are obliged to carry arms in interest of the protection of this Government.

Mr. WILLIAMS. Let me get back to the law, and ask a question.

Mr. GOLDSBOROUGH. I think that in the interest of orderly procedure, we ought to try to keep to the present issue, which is whether or not the municipalities are making these contributions. After we find out who is making them, then we can meet in executive session and see what we will do about it. But it is not clear in our minds now that the Federal Government is not at the present time paying it. If I am wrong, I would like to know it.

Mr. WILLIAMS. Let me get back to the interpretation of the law. That is where we were when this started up.

Mr. STRAUS. I think that I can answer the question you have in mind, at least as to the existing practice, if you would allow me to present the chart that you asked me to prepare. I think every point that has been raised here can be answered, of course, not to the satisfaction of everybody here, but as to the facts of the law that I am administering——

Mr. GOLDSBOROUGH. What this committee wants to know——

Mr. STRAUS (continuing). If you gentlemen will listen to me, and allow me to present this chart, I think the chart is as plain and as conclusive as it can be.

Mr. GOLDSBOROUGH. Listen to me one minute.

What this committee wants to know is the condition of the present law as interpreted by the Federal Housing Authority.

Mr. STRAUS. I can tell you——

Mr. GOLDSBOROUGH. Just one minute—and then, after that, we want to know what, if any, change—of course, we know about the 10 percent, the amount being increased from 90 percent to 100 percent, but we want to know whether there is any other change suggested by this bill, and that is all we want to know.

Mr. STRAUS. I can tell you, if you will let me.

Mr. GOLDSBOROUGH. When we know that, then we will decide what we will do about it.

Mr. STRAUS. Will you let me present this chart as to that, which will answer you?

Mr. GOLDSBOROUGH. I am going to ask that you be not interrupted, Mr. Straus.

Mr. STRAUS. Thank you.

Gentlemen, you have raised three points as to the operation of this act in its present form. Those points are not directly involved in the method, but I can see exactly that they are indirectly involved, and I can see also why you want to understand how the act is being administered.

Those questions involve the percentage of the economic rent, the rent which would otherwise have to be charged if there were no subsidies, of the social rent paid by national subsidy and by local subsidy, and you have raised the second point as to whether tax exemption of the project by the locality should be counted as a local annual grant or subsidy, and you have raised the third point as to whether in addition to the loan made, either nationally or locally, there should be a capital grant or subsidy.

Now, all three of those points as to the present program here, contrasted, as you asked me to make it, with the present program in England, are displayed on a very simple chart (exhibit XIII) which will take me between 8 and 10 minutes to present.

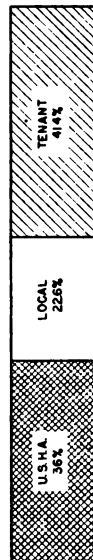
EXHIBIT XIII
DEPARTMENT OF THE INTERIOR

UNITED STATES HOUSING AUTHORITY

COMPARISON OF FINANCIAL PROVISIONS UNDER AMERICAN AND ENGLISH HOUSING SYSTEMS

AMERICAN

PERCENTAGE OF ANNUAL ECONOMIC RENT PAID BY



PERCENTAGE OF TOTAL ANNUAL SUBSIDY PAID BY



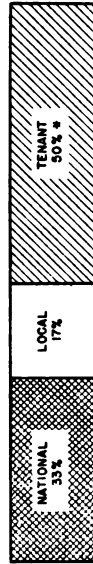
PERCENTAGE OF TOTAL INITIAL DEVELOPMENT COST LOANED BY



LOANS MATURE OVER PERIOD OF 90 YEARS

ENGLISH

PERCENTAGE OF ANNUAL ECONOMIC RENT PAID BY



* RENT PAID BY TENANT IN ENGLAND INCLUDES FULL LOCAL TAXATION WHICH USUALLY EXCEEDS LOCAL CASH CONTRIBUTION

PERCENTAGE OF TOTAL ANNUAL SUBSIDY PAID BY



PERCENTAGE OF TOTAL INITIAL DEVELOPMENT COST LOANED BY



LOANS MATURE OVER PERIOD OF 60 YEARS

This chart shows the American system as it is today being administered, whether rightly or wrongly, by your Administrator, and the British system in respect to those three points on which you have questioned me.

As to the first point, according to the American system which we are now administering, the percentage of the annual economic rent paid by the Federal subsidy is 36 percent. The part paid by the local communities in the projects now existing is 22.6 percent, in the form of tax remissions, and the part paid by the tenants in the social rent is 41 percent.

In Great Britain the national subsidy amounts to 33 percent of the total economic rent, the local annual contribution amounts to 17 percent as distinguished from 22 and a little more in this country.

Mr. GOLDSBOROUGH. Is that in tax exemptions?

Mr. STRAUS. Excuse me; I will cover every point if you will allow me to finish. I think I can answer every question you have in mind, as to what is being done—I do not mean as to what should be done.

In England 17 percent is the local contribution, and here so far it is 22 percent. In England the tenant pays 50 percent of the total economic rent in actual social rent, as against 41 percent here.

Now, to answer the question you are going to ask, is there tax exemption in England, there is no tax exemption in England. In England the system is that taxes are paid by the tenants, I think on a separate bill, on all of these projects, and that amount is remitted in part, not as much as here, paid back in cash to the project; that is, they go through the mechanism of collecting taxes and then paying them back to the project.

Now, the British system could easily be adopted here if you just take about 2 or 3 years to amend all of our laws so that the tax could then be collected and then paid back, instead of remitting it.

Mr. GOLDSBOROUGH. As to your local contribution, the 17 percent, is that in money or in tax exemption, or what is it in?

Mr. STRAUS. The 17 percent represents payment first in full of taxes, and then part of that money is paid back—a smaller contribution, which is what I want to get across than we are making. The property is assessed at its full value, full taxes being paid, and a part of it is paid back in an annual grant.

Mr. SPENCE. What proportion of the project in England is tax exempt? How much is paid back?

Mr. STRAUS. About 75 or 80 percent, I will get you that exactly. but they do not go ahead and remit quite the full amount of the taxes.

Let me take the next two things now, and I think that I can foresee all of the questions, for I have lived with this thing for 8 years.

The percentage of the total annual subsidy made locally and nationally is a thing that I know you want to be told, as I am administering your act. We are today paying, through the United States Housing Administration, 61.4 percent of the total subsidy necessary to achieve these low rentals, and the localities, through those tax exemptions or tax remissions, or tax repayments, are contributing 38.6 percent.

In Great Britain it is very closely parallel. The National Government pays 66.6 percent of the total subsidy, a little bit more than we are paying, because in Great Britain the localities pay a little less than

I am getting, only 33.4 percent, by reason of this mechanism of full tax remission and then partial repayment in taxes, as contrasted with our method of tax assessment and then complete remission.

Mr. SPENCE. Is that in local services there?

Mr. STRAUS. No, sir; that is a cash contribution. They pay the money and take it back, a bookkeeping operation.

In our system, we have no capital grants. It is entirely financed by loans. In Great Britain there are no capital grants. It is entirely financed by loans.

In this country, under the statute which I am administering and which you gentlemen wrote, 90 percent or up to 90 percent of the loan is a loan from the Federal Treasury and 10 percent is financed locally. In Great Britain the loan is entirely a national loan from a fund that has been in existence over 88 years. One hundred percent of it is loaned for the same thing, for a period up to 60 years. Lately some of the cities have been able to float the loans themselves.

Mr. SPENCE. What losses have they sustained?

Mr. STRAUS. I want to be careful in answering that question. I know that that loan is solvent, and I know that that has been going on for over 88 years.

Now, gentlemen, that is the American system, if I may call it such, and that is the British system. They are very nearly on all fours. There are two differences, fundamentally. The one difference is that in this country we have direct tax remission, and in Great Britain they assess full taxes, but pay most of them back, a bookkeeping operation, and in this country we can only lend 90 percent of the cost of the project, and then we go through complicated details of getting the 10 percent by separate loans.

That is the picture. That is the way it is done.

Mr. TRANSUE. Is the English subsidy system the same as ours?

Mr. STRAUS. The subsidy is calculated always to bring the rent down to what slum dwellers can afford to pay. In effect, it always works that way.

Mr. SPENCE. Have they computed their rents on the same basis as you compute your rents?

Mr. STRAUS. In what way?

Mr. SPENCE. In regard to the investment.

Mr. STRAUS. Yes, I would say substantially "yes," as far as I know it. I have only spent 2 or 3 months studying it. I am not completely familiar with that.

Mr. SPENCE. Other than taxes, what essential elements of difference are there in the English system as compared with ours?

Mr. STRAUS. There is not even the full amount of taxes remitted, and we are locally getting complete tax remission. They do not—

Mr. REILLY. In the United States, does not the Government stand for the 100 percent?

Mr. STRAUS. I do not think that is strictly true. I am not legally aware of it, and I do not think that that is directly true, because—

Mr. REILLY. Does not the United States Government guarantee the 10 percent that the local housing authority provides?

Mr. STRAUS. No; surely not.

Mr. REILLY. Are their bonds sold without any guaranty?

Mr. STRAUS. The bonds are secured by the rents from the project, plus these two sources of revenue that I have mentioned and that I indicated here [indicating].

Mr. REILLY. In figuring what the subsidy will be, you provide interest and amortization on that 10 percent, so that it all comes out of the project?

Mr. STRAUS. Right.

Mr. REILLY. We started out——

Mr. STRAUS (interposing). Excuse me; I do not want in any way to shut off anything, but do we get anywhere by going over and over again that same ground? I will come up here every day for the next year, if you direct me to do so, because my heart is in this program, but if you have asked me that question about the payment of the guaranty of that 10 percent once, you have asked it of me 50 times. I have done my best; I have made an honest response one time after another, but what is the good of continuing to "rag" me?

Mr. REILLY. Because you continue to talk about a local contribution, when there is no local contribution.

Mr. STRAUS. I tried to answer that.

Mr. WILLIAMS. I can answer it. There is no local contribution.

Mr. FISH. Would you be willing to answer this question? Would you favor having the constitution of New York State amended to provide for total tax exemption for the housing projects in New York State?

Mr. STRAUS. I am very loath to commit myself, Mr. Fish, on a big important matter such as that, without mature and careful reflection. If you want to have any of my views, which after all I do consider important in view of my position, I would ask you to be good enough to present your question to me in writing. I like to be very careful as to what I say, and to be sure of my advice.

Mr. FISH. I think that that is very proper. I will do that today, send you a letter, because this will be a big issue, and I want to be guided very largely by your views.

Mr. TRANSUE. Mr. Chairman——

Mr. WILLIAMS. I was asking some question which I had not finished.

Mr. FORD. Mr. Chairman, I have not said anything at this session at all.

Mr. GOLDSBOROUGH. I will have to recognize Mr. Transue.

Mr. TRANSUE. I was going to say, in regard to Mr. Reilly's observation that there was no local contribution, this, that he did not mean that the remission of taxes was not a local contribution. You did not mean that?

Mr. REILLY. I mean the original 10 percent.

Mr. TRANSUE. In regard to that, if the project is not economic, and does not pay out, do you understand that the United States Government is going to pay that 10 percent to the holders of those 10 percent bonds?

What is your understanding of that?

Mr. REILLY. The United States pays the whole thing.

Mr. TRANSUE. That is not so, is it, Mr. Straus? If the rents do not pay the 10 percent, it does not get paid.

Mr. STRAUS. No; that is not strictly true. The local loan is paid, as I repeatedly said, out of, first, the rents, then indirectly by the tax remissions, and then by so much of the Federal subsidy as may remain over after payment of interest on the Federal portion of the loan.

I do not think there is a member of the committee, Congressman, that does not fully understand now what we are doing, although I know that some of them disagree as to its wisdom.

I would like to ask the members of the committee if they would be kind enough to read, in this connection, this memorandum entitled "Municipalities are Unable to Furnish a 10 percent Capital Subsidy." I am only asking that because some of the members were not here earlier, and it does answer some of the questions that the members of the committee have asked.

Mr. GOLDSBOROUGH. Do we have that?

Mr. STRAUS. Yes. Every member of the committee was furnished with it.

Mr. GOLDSBOROUGH. Now, gentlemen of the committee, do you desire any further hearings, or are you ready for executive session?

Mr. REILLY. Other people want to appear.

Mr. FORD. Is there any demand from outsiders for a hearing? I do not know of any.

Mr. REILLY. The American Federation of Labor wants to be represented here and heard, and I understand Mr. Carnahan, who represents the National Lumber Association, desires to appear.

Mr. GOLDSBOROUGH. If it is agreeable to the committee, we will tell Mr. Straus that we are very grateful to him and to Mr. Keyserling for having appeared before the committee and given us a very full explanation of the work pursuant to our legislation, and say to them that unless we call them specifically, it will not be necessary for them to return.

Mr. WILLIAMS. There is one question that I wanted to ask.

Mr. FORD. There is one observation that I want to make, too.

Mr. GOLDSBOROUGH. I am not quite through.

Mr. WILLIAMS. I thought that you were going to discharge him.

Mr. GOLDSBOROUGH. There is just one thing that I wanted to add. I do not know how long this Reconstruction Finance Corporation bill will take that we are going to have a hearing on tomorrow. It may not take all of tomorrow, and yet we cannot notify the American Federation of Labor and anyone else who wants to appear until after we have finished with the Reconstruction Finance Corporation.

Now, proceed.

Mr. WILLIAMS. I asked a question a while ago, to which I want to return. In case of default, what other rights will the bondholders have under this agreement?

Mr. KEYSERLING. The rights of the bondholders, in event of default, are exactly the same as the rights of any holders of municipal bonds. In other words, the trust indenture issued in connection with the taking up of the definitive local bonds contains provision that in event of default, a trustee will be appointed for the administration of the property for the benefit of the bondholders. There is no difference at all that I can distinguish between this arrangement and any ordinary revenue loan.

Mr. WILLIAMS. There is no provision in here for foreclosure, I recall Mr. Straus saying.

Mr. KEYSERLING. There is no provision for foreclosure.

Mr. WILLIAMS. And there is no lien created against the property itself?

Mr. KEYSERLING. Only against the revenues of the property.

Mr. STRAUS. That is right.

Mr. FORD. Mr. Chairman, it has been repeatedly stated, this morning particularly, that the law as it is at present being administered and as it at present stands on the books is being administered in a manner that does not conform to the statute directly or to the intent of Congress. That statement has been made here repeatedly this morning.

Mr. GOLDSBOROUGH. I have not understood any statement of that kind to be made.

Mr. FORD. There have been such statements made.

Mr. GOLDSBOROUGH. As far as I know, there has been no implied suggestion of any impropriety on the part of the Administrator or in the administration of this law. I have not heard of any.

Mr. FORD. There has been no suggestion of impropriety, but there has been the statement that the law is being administered not in conformity with the letter of the statute and the intent of Congress. Mr. Reilly has made that statement—

Mr. REILLY. And I stand by it.

Mr. WILLIAMS. So will I.

Mr. FORD. I want to comment on it in that particular, because the law says that we should have from the local community 10 percent, and it does not say whether it is a grant, or a contribution, or what, but that the local authority shall supply 10 percent of the original amount.

Mr. WILLIAMS. I will have to take exception to that statement.

Mr. FORD. All right; why the exception?

Mr. WILLIAMS. That is not what the law states.

Mr. FORD. What does the law state? It says that the Government shall supply 90 percent. Therefore the other 10 percent cannot come out of the air.

Mr. WILLIAMS. It says that the total of such loans outstanding on any project shall not exceed 90 percent.

Mr. FORD. Exactly. That is exactly what I said.

Mr. WILLIAMS. Well, all right.

Mr. FORD. You can put it in legal phraseology if you want to.

Mr. WILLIAMS. That is what the law says.

Mr. FORD. I am putting it in common-sense language, which we can all understand.

So far as the Administrator has gone, that requirement has been lived up to scrupulously, has it not, Mr. Straus?

Mr. STRAUS. Yes.

Mr. FORD. All right; that has been done. And in no case have you made a contract with any city in which you have agreed to furnish more than 90 percent of the amount of money involved?

Mr. STRAUS. That is correct.

Mr. FORD. That settles that.

Mr. REILLY. But there are outstanding liabilities to the extent of 100 percent on every project.

Mr. WILLIAMS. That is it.

Mr. FORD. To what extent is that true?

Mr. REILLY. Absolutely true.

Mr. FORD. The project itself carries the liability of 100 percent, but the United States Housing Authority does not.

Mr. REILLY. The Government is in back of the liabilities.

Mr. FORD. The Federal Housing Authority has to see that the 90 percent that it puts out is returned to the Housing Authority by the payment of those bonds—is that correct?

Mr. STRAUS. That is correct.

Mr. FORD. And the 10 percent, where it is put up, is an entirely separate and distinct obligation?

Mr. STRAUS. That is correct.

Mr. FORD. The only connection between the two is that out of the revenues of the project must come the 10 percent as well as the 90 percent—is that correct?

Mr. STRAUS. Exactly.

Mr. FORD. All morning we have been saying something else.

Mr. REILLY. Mr. Ford, we have not said anything else. We have simply said that the total cost comes out of the subsidies and the United States is obliged to pay in excess of what the revenue—

Mr. FORD (interposing). It does not because 20 percent of that subsidy is supplied by the local authority in the form of tax exemption.

Mr. REILLY. What is the difference between tax exemption and the revenue coming out of the United States Treasury, when the 10 percent bonds that the Housing Authority issues is part of that obligation?

Mr. FORD. But the Federal Housing Authority is in no wise responsible for it, and after the sources of revenue which that project has for its maintenance have been paid in at the end of the year, summed up what is done first? The first thing is that the interest is paid on the 90 percent—isn't that right?

Mr. STRAUS. Correct.

Mr. FORD. The next thing is that the maintenance of the property is carried out, that is, the reserves are set aside, so much a room for its being kept up in good shape, then the amortization is taken care of, and then if there is a surplus, something left, it is applied to the 10 percent. It can only be applied to the 10 percent.

Mr. STRAUS. That is correct.

Mr. REILLY. Do you understand, Mr. Ford, that those bonds are going to be issued with the understanding that if there is something left, they will get it?

Mr. FORD. Yes.

Mr. REILLY. That is already provided for in the original figuring of cost. This 10-percent liability goes into the rents, and they figure it out so they are covered. You could not sell a bond with the understanding that they would pay if there is something left.

Mr. STRAUS. Surely we tried to work out a solvent project. You would not want us to work out an insolvent one.

Mr. REILLY. Surely, and that is where under your administration the locality pays nothing on the 10 percent. Now, Mr. Straus' answer has been this, "We cannot get any contribution, and if you have a 10-percent contribution, you have no slum clearance."

Mr. FORD. Mr. Straus has repeatedly said that he can operate this bill as it stands at present, but that if we want to speed up the program of building, if we want to carry out the proposition that the building of these houses will give men work, then he asks us to make it 100 percent and add five hundred millions to their right to raise money.

Mr. GOLDSBOROUGH. Mr. Luce has a question.

Mr. LUCE. I am very sorry that I could not be here earlier. I had another committee meeting to attend.

What provision have you made for the placing of families dispossessed by this program?

Mr. STRAUS. This program is a decentralized program. It is of the essence of a decentralized program that that responsibility is wholly and completely the responsibility of the local authorities.

Mr. LUCE. It is the matter of fact rather than law that I am after. You gave us to understand that the law provides that those who are removed from a slum must be supplied housing somewhere else.

Mr. STRAUS. No; there is no such provision in the law.

Mr. LUCE. I understood you to say that.

Mr. STRAUS. No, sir.

Mr. LUCE. That is why I asked you what will become of the people who are removed from the existing houses. I understood you to say that the law required you to get some other home for them.

Mr. STRAUS. I would say that the law required exactly the opposite, because frequently the people are on relief and I think indirectly we would be estopped by the terms of the statute from rehousing them.

Mr. LUCE. I must have fully misunderstood you.

Am I right in saying that there exists now no plan or process for giving homes to those who are removed from slum projects?

Mr. STRAUS. I want to answer you just as directly as I know how that the management and determination of the policies and operation of what is to become of the slums and the slum dwellers is, according to the terms of this program which you have written into the act, entirely and completely a matter of local concern. I would be interfering with something which I neither have the legal nor the moral right to interfere with, to find out what was to become of and what was to be done with these families, other than the specific one provision of the statute, that I must assure myself that there will be demolition of an equivalent number of slum units, and I do nothing more.

Mr. CRAWFORD. Will you allow me to make an observation there?

I asked a man who thought he was going to be one of the commissioners what they were going to do with them, and his answer was this, "If we are able to rehabilitate these slums, the people whom we remove from there, if they are qualified by having sufficient income, will be the persons whose applications for entry into the new dwellings will be given first choice."

Mr. GOLDSBOROUGH. But what will be done with them in the meantime? That is the matter that Mr. Luce had in mind.

Mr. LUCE. Have you any knowledge what the local authorities contemplate in the matter?

Mr. STRAUS. No, sir; I could not give you any idea, because the problem varies from city to city. It varies as to whether you have a grave housing shortage, and as to the ability of the locality to develop a new section or reclaim an old one.

Personally, if I may venture an observation which is not directly in line with your question, I think it is very wise to decentralize that part of the program. I am not in favor of a lot of Federal interference and Federal management of such a strictly local problem, a problem as to what is to become of particular units of the population or particular parts of the city.

Mr. LUCE. Now, I am getting a much better idea about it, and I had hoped that you would be able to tell us what the program contemplated by the local authorities was, so that we might meet the argument that we are not making provision for the dispossessed. I cannot conceive myself how a local authority could or would handle it, and I thought perhaps you might know.

Mr. STRAUS. No; we have not been directly up against it in the few months that I have been there. I have no practical experience to base it on. I find that our efforts to get the program going involves enough things that I have to discuss and know about, that I do not concern myself with a consideration of things really completely extraneous to my job.

Mr. GOLDSBOROUGH. I would like to make an observation here.

Unless, after these buildings are completed, those who are dispossessed would be given preference, the whole program is a nullity, as I see it, and, as I understand that question, it is what is to be done with the dispossessed people in the interim between the clearance of the slums and the reconstruction.

Mr. LUCE. No; that does not go quite to the point. What I had in mind was that the figures laid before us by the Housing Authority with respect to the occupancy of the new building would be far in excess of the financial capacity of the dispossessed, and it strikes me that an all-important part of the program should be to secure better living quarters for the dispossessed than they previously had.

Mr. TRANSUE. Will the gentleman yield?

Mr. STRAUS. I think that I can answer Mr. Luce in a very short answer, and that is that we try to make these projects, wherever possible, an impetus to a general replanning of the city, and that problem is, of course, one of the things that comes up.

I do not know if that is a complete answer, but it is a partial answer. It does not answer your question that supposes there are 16 families who are on relief in that slum area, and asks what the city of blank is going to do with them. I do not know the answer to that in that case; that is true.

Mr. TRANSUE. My thought was that these people who are in slums, a great many of them, in fact most of them, are paying rent—isn't that true?

Mr. STRAUS. Yes, sir.

Mr. TRANSUE. If they are paying rent, they will no doubt be able to get housing from the United States Housing Authority in these projects at the same or less than they are now paying.

Mr. STRAUS. Preference would obviously be given to them, but it is not something which directly concerns me.

Mr. LUCE. My figures yesterday completely disproved that possibility, because they proved that a man with an income of less than \$1,200 a year could not pay anything like the rents that are to be charged in these new projects.

Mr. TRANSUE. I do not understand that.

Mr. STRAUS. I just simply cannot, at the risk of contradicting the Congressman, flatly allow that to stand in the record. Our figures, worked out in minute detail, show that we are rehousing families with incomes of from \$550 to \$600 per year at the lower end, and families with \$1,000 to \$1,050 at the upper end. There is no project in any city, and there will be none, that will apply to income groups

higher than that. We have ample figures to prove that, on the basis of surveys made by the W. P. A., surveys made by the cities themselves, and surveys of the proper amount that should be paid in rentals, varying between a quarter and one-fifth of the income.

Mr. LUCE. My only answer to that, sir, is that if you will take the figures I put into the record yesterday, and point out to me where the flaw in those figures is, I shall then be willing to accept the fact that you are going to be able to rehouse in those projects the persons who have previously lived in the slums.

Mr. GOLDSBOROUGH. May I ask one question?

I thought I heard you say that Great Britain has been pursuing a slum program for around 80 years. Is that correct?

Mr. STRAUS. No; I did not say that. The British program, as we understand it now, was inaugurated in 1918, immediately after the war, as a sort of a program for homes for heroes.

Mr. GOLDSBOROUGH. That was my idea.

Mr. STRAUS. This fund has existed and has been used for various purposes. It is called the public works loan fund, and does not only finance housing, and if I implied that, I was wrong.

Mr. GOLDSBOROUGH. What I had in mind was this, that, as I understand it, the slums in London, for instance, are worse than any we have in this country.

Mr. STRAUS. Today, sir?

Mr. GOLDSBOROUGH. Certainly prior to 1918.

Mr. STRAUS. The slums of the British cities are practically eliminated. They will be completely eliminated by 1940 under the present program. There is no such thing in any British city that I know of that compares with what I can show you in a thousand communities in the United States.

Moreover, the British today are going beyond slum clearance. I showed you yesterday a poster which may still be here, showing that they are going after overcrowding, even in buildings that are sound. Conditions such as we have today would not be tolerated in any British city.

Mr. WILLIAMS. As a matter of information, if you have the facts, how many are there in this group from \$550 to \$1,050? I refer to families, if you have the information, in this country.

Mr. STRAUS. That is a fair question, and I think we can get that easily.

Mr. WILLIAMS. How many families are there in the group just below that?

Mr. STRAUS. That is an interesting question, and the information is available. We can get it, but I do not have it in my head.

Mr. WILLIAMS. I will add this also—the group beyond that.

Mr. STRAUS. To nothing at all, we will say?

Mr. WILLIAMS. No; up.

Mr. STRAUS. Up to, say, \$1,800 or \$2,000? Those figures are not accurate, but they are roughly available.

Mr. WILLIAMS. I will be obliged if you can put those figures in this record.

Mr. STRAUS. Put them in the record?

Mr. WILLIAMS. Yes; unless you have them now.

Mr. STRAUS. I haven't them available now, but I can send them to you and you can put them in.

Mr. REILLY. What is the difference between the British policy and our policy as to the character of building provided for the slum dwellers?

Mr. STRAUS. I am glad that you asked that. The character of the buildings provided for the slum dwellers in Great Britain is far below what has been provided so far under the P. W. A. program, not nearly as good. I think that with the cost limitations and with the Administrator's own training for economy, that what we will provide in the new projects will closely approximate the British procedure, except that you will always find in this country better sanitary facilities. I do not know what the earlier British projects provided, but their projects today fall in some ways short of what we would deem satisfactory. For instance, they are satisfied with a tub about this big [indicating], and that seems to be used also for a sink, and things like that. They do achieve low rentals, but I do not think you would believe that I was doing my job if I allowed that kind of thing to go up in this country.

Mr. McKEOUGH. Have you any blueprints available in connection with the projects that have been finally approved, as to three-, four-, or five-room layouts, under your particular plans?

Mr. STRAUS. Congressman, I have that in a purely tentative stage, and we are in the midst of tearing that apart, and I would not like to make that public. We are setting up some model plants made out of compo-board because of the arguments as to whether the rooms are big enough or not. Some people say that I have it too small, and I want to find out.

Mr. TRANSUE. Will you please state in the record again what the tenant will have to pay in rent, in answer to the argument or the statement that Mr. Luce made?

Mr. STRAUS. That is already in the record, sir.

Mr. TRANSUE. Put it in again.

Mr. STRAUS. The rents vary from a high in New York City of \$5.12 to \$5.18 per room per month, which would provide for an annual income of about \$1,050, on the accepted standard of 200 times the monthly rental as the annual income, down to a low at Austin, Tex., which ranges from \$2.66 to \$2.84, and there we hit about \$550 or \$560, which we had to hit, and I think all of our projects will be within those ranges.

Mr. TRANSUE. Proving, of course, that any one paying rent today can pay those prices.

Mr. STRAUS. Yes, sir; that statement is absolutely correct.

Mr. McKEOUGH. Mr. Chairman, how soon are we going to adjourn? I have some urgent business elsewhere in connection with the wages and hours bill.

Mr. GOLDSBOROUGH. If there are no further questions, we will adjourn now, until 10 o'clock tomorrow morning, at which time we will hear Mr. Jones of the R. F. C. on the railroad loan bill.

(Letter inserted in hearings upon request of Hon. Clyde Williams, Member of Congress:)

UNITED STATES HOUSING AUTHORITY,
Washington, May 11, 1938.

HON. CLYDE WILLIAMS,
House of Representatives, Washington, D. C.

MY DEAR CONGRESSMAN WILLIAMS: During the course of the hearings, you requested information as to the number of families in the United States with incomes under \$600 and with incomes ranging from \$600 to \$1,000 per year. As

you probably realize, there is no accurate up-to-date data available on family incomes, particularly on a Nation-wide basis. Several estimates, however, have been made within the past few years, of which the best known is in America's Capacity to Consume, published by the Brookings Institution.

The Brookings estimate, though published only a few years ago, refers to the year 1929. It may therefore be assumed that the general range of incomes is today somewhat lower than the Brookings estimate.

The Brookings figures for nonfarm families in 1929 are as follows:

Family income class	Number of families	Percent of total nonfarm families
Under \$500.....	650,000	3.0
\$500-\$1,000.....	2,985,000	9.6
\$1,000-\$1,500.....	4,749,000	21.9

No break-down at the \$600 level was made by Brookings. The above figures would probably indicate, however, that there were at least 1,000,000 nonfarm families with incomes under \$600 in 1929.

A survey of incomes in a number of individual cities was made in 1933 by the Bureau of Foreign and Domestic Commerce, in the Financial Survey of Urban Housing.

According to this survey, made at a low point in the depression, 19 percent of all the families in 22 cities located all over the country had incomes between \$600 and \$1,000 in 1933. In St. Joseph, Mo., 20 percent of the families fell within this range.

Hoping that this very approximate information will be of service to you, I am,
Faithfully yours,

NATHAN STRAUS, *Administrator.*

(Statement submitted by Mr. William Green and Mr. Harry C. Bates on behalf of the American Federation of Labor:)

MAY 4, 1938.

HON. HENRY B. STEAGALL,
*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

DEAR CONGRESSMAN STEAGALL: On behalf of the American Federation of Labor we wish to express our unqualified support of the amendments to the United States Housing Act contained in H. R. 10417, introduced by you on April 26, 1938.

During the past 6 months the United States Housing Authority has been intensively and energetically clearing the field of low-rent public housing for action. The passage of State and local enabling acts, the creation of a large number of new local housing authorities, the study of the local housing needs and the preparation of projects which would effectively bring the rents within the reach of low-income groups—all of these actions have cleared the way to prompt initiation and rapid development of local low-rent housing and slum-clearance projects.

Over \$310,000,000 have been specifically earmarked for local housing projects in all parts of the country by the United States Housing Authority and requests have been received for additional earmarkings which would consume the balance of the \$500,000,000 loan authorization provided for in the United States Housing Act of 1937. Contracts for loans and annual contributions have been entered into with nine local housing authorities totaling \$53,500,000 in loans for projects whose cost will total about \$60,000,000. Because policies, questions of local procedures, and all preliminary details have been thoroughly cleared away beforehand, further earmarking, consummation of new local contracts, and actual loan payments can and will proceed at a rapidly accelerated pace.

Under the terms of the present act, however, the United States Housing Authority program is limited in scope in several respects. The amendment which you proposed, while retaining reasonable and practical limits upon the scope of the program, will permit the United States Housing Authority to take care of the most pressing local housing needs and provide employment for building-trades mechanics and laborers in all parts of the country.

Your amendment increases the authorized bond issue to raise money for loan purposes by \$500,000,000. Inasmuch as it generally takes about 18 months to

complete a project, and the loan contracts must necessarily cover the complete construction costs of the project, it is clear that the United States Housing Authority must have authority to plan and make loan contracts on the scale of a much larger authorization than the amount of money it can actually put into circulation in the next calendar year. In view of this the additional authorization for borrowing to the extent of \$500,000,000 will be absolutely essential to enable the United States Housing Authority to get \$300,000,000 into circulation in the course of the present calendar year.

In addition, the amendment increases the amount of annual contributions (the payment of which will begin after the projects are completed but which must be contracted simultaneously with a capital loan contract) to \$50,000,000 for this year. This provision will meet the needs of the proposed expanded loan program. While it does not involve any additional appropriations, the amendment effectively accelerates the rate of expenditure which the United States Housing Authority can maintain during this year.

Finally, the amendment removes for the current year the requirement of 10 percent local participation in the capital loans to local housing authorities in those localities where such requirement blocks speedy action. In practically every instance the 10 percent local contribution required by the act must be raised by borrowing. Under the terms of the amendment the local housing authority will be enabled to obtain the remaining 10 percent from the United States Housing Authority instead of the local lending agencies. This will eliminate delays incident to local borrowing and will make projects available to those local housing authorities which are unable to borrow their 10 percent from local sources. This change is not only important but also sound and desirable, because it will markedly improve the financial security of the Federal Government.

The provisions contained in this amendment will serve to enlarge the scope of the low-rent housing program, will expedite the actual construction of low-rent housing projects, and will make these projects available to wage earners and their families at an earlier date.

The amendment is in full accord with the principles embodied by President Roosevelt in his message to Congress of April 14. It is in full accord with the views unanimously expressed by the convention of the American Federation of Labor held last October. On behalf of the officers and members of the American Federation of Labor unions throughout the Nation we urge speedy enactment of this amendment in the form in which it was introduced by you.

Very truly yours,

WILLIAM GREEN,
President, American Federation of Labor.

HARRY C. BATES,
Chairman, Housing Committee, American Federation of Labor.

COMMITTEE FOR INDUSTRIAL ORGANIZATION,
Washington, D. C., May 10, 1938.

HON. HENRY B. STEAGALL,
*House Committee on Banking and Currency,
House Office Building, Washington, D. C.*

MY DEAR CONGRESSMAN: The recovery program recommended to the American people by President Roosevelt in his recent message includes a proposal that immediate construction of \$300,000,000 in additional housing projects be undertaken by the United States Housing Authority.

If such an expanded program is to be fulfilled this year, it will be necessary to amend the United States Housing Act in several respects. The amendments have been embodied in bills introduced in both Houses of Congress, one of which, H. R. 10417, is now pending before the Committee on Banking and Currency of which you are chairman.

The principal changes made by this bill in the present act are as follows:

(1) The Authority is to be authorized to lend up to 100 percent of the value of the project. At present it can lend only 90 percent. This change will speed up construction to an extent which will outweigh any supposed advantage to be gained by requiring local authorities to provide part of the funds.

(2) The Authority is also to be authorized to arrange for bond issues in the total amount of \$1,000,000,000 instead of \$500,000,000 as at present. This change will make it possible for contracts to be entered into promptly which will result in the expenditure of about \$300,000,000 during this calendar year.

(3) As a necessary supplementary matter, the Authority is to be authorized to enter into contracts for annual contributions to local authorities up to the amount of \$50,000,000 during the present year. Under existing conditions in the housing industry, it is impossible to enter into contracts for loans and construction unless corresponding arrangements can be made for annual subsidies. These provisions of the law must be brought into harmony with the general program.

Unless these three changes are made in the present act, together with certain minor matters also dealt with in the proposed amendments, it will be impossible for the United States Housing Authority to expend more than about \$125,000,000 this year. Such an amount would be pitifully small in view of the great need both for employment and for housing itself.

The Committee for Industrial Organization endorses the proposed measures without qualification and urges that you support them by your vote both in committee and on the floor.

Sincerely,

LEE PRESSMAN, *General Counsel.*

(Thereupon, at 12:20 p. m., an adjournment was taken until Friday morning, May 6, 1938; and the hearings on the housing bill were continued subject to further announcement.)

